

1889

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# Central Pacific Railroad Company

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*FACTS REGARDING  
ITS PAST AND PRESENT MANAGEMENT*

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BY  
A STOCKHOLDER AND FORMER EMPLOYEE

*Robert S. Graham*

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ABABELL

I, ROBERT S. GRAHAM, of the City and County of San Francisco, State of California, do hereby certify as follows :

I am a stockholder in the Central Pacific Railroad Company, and have been in the employ of said Company (and the Southern Pacific Company of Kentucky, as its lessee), in the office of the Secretary, as clerk, during the past ten years. I am familiar with the past official acts of the Boards of Directors of both companies, having kept the books in which the proceedings thereof are recorded.

I resigned from such position, freely and voluntarily, on April 18, 1889, in anticipation of a suit against Stanford & Co., as Directors, by certain subscribers and stockholders of the Central Pacific Railroad Company of California, for an accounting of funds. I have knowledge of the corruption and fraud practised in the management of the above roads by the Directors, and believe that such a suit would lead to the exposure of their present methods as well as past acts. Obstacles in the way at the time temporarily delayed the necessary action to be taken ; but recently a suit has been instituted with the above object in view.

I believe that the controlling power of the present Board of Directors is so corrupt as to demand, in the interest of the stockholders and the United States Government, that the above roads be placed in better hands for operation, before it becomes too late, said Directors, by their mismanagement, being already heavily indebted to the roads.

The evidence contained in the following pages is true and correct copies of the originals ; and I acknowledge the statements made by me to be my best judgment and belief.

IN WITNESS WHEREOF, I hereunto affix my hand and seal, this eleventh day of November, A. D. 1889.

ROBERT S. GRAHAM. [SEAL]

Subscribed and sworn to before me by the }  
said Robert S. Graham, this eleventh day }  
of November, A. D. 1889.

LINCOLN SONNTAG,

*Notary Public*, [SEAL]

In and for the City and County of San Francisco, State of California

## P R E F A C E .

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THIS publication will better acquaint the stockholders and the United States Government with the methods of Stanford and his associates in their past and present management of the Central Pacific and other roads now being operated under lease by the Southern Pacific Company of Kentucky. As Congress is about to consider the best plan for collecting the debt from the Central Pacific Railroad Company, I have included herein facts relative to the earlier history of the management; much of the information, however, is presented for the first time, and will, I hope, influence the Government in reaching a proper solution of the present difficulties.

It is necessary in order to do this to give some inside facts as to the practices of the principal directors. I propose to show why these men should not be treated as public benefactors, and that the intention of the Government to insist upon a strict fulfilment of their obligations to it is but just and proper. To this end I have made use of some of the information elicited through the recent investigation by the late United States Pacific Railway Commission. In such I have confined my quotations, however, to the report of the Majority Commission, as I understand that the President of the Company complains that the sweeping charges and denunciations submitted in the report of the Minority Commission by Chairman Pattison are unjust. Although I have read that portion of both reports which relates to the Central Pacific, I cannot recall a single paragraph containing a favorable criticism of the management of the road. Notwithstanding this, shortly after the Investigation Commission had been appointed by President Cleveland, Mr. Stanford remarked to the writer: "I do not fear the people; they cannot hang a man unless a murder has been committed, and in this case there has been no murder." When the Commission reached San Francisco, he expressed to them his pleasure at being allowed the opportunity of setting himself aright before the public. He promised them every assistance, and pretended to welcome a full and impartial investigation of his management.

The manner in which he succeeded in forcing the investigation to an abrupt termination is still fresh in the minds of the people. Through his refusal to answer a particular question, he practically admitted that money belonging to the Company, in the aggregate \$4,818,355.67, was squandered by himself and associates. The expenditures are shown by vouchers containing no information as to what purpose the money was applied. "It appears from the books of the Company," state the Commission, "that from the very inception of the enterprise down to the present time, it has been the constant practice of the Directors of this Company to permit the expenditures of very large sums of money without requiring any sufficient vouchers disclosing the purposes to which they are applied." (Report Majority Commission, page 84.)

I have shown elsewhere a copy of correspondence which throws doubts on the probability that the books and records of the Contract and Finance Company have been destroyed; and I invite the reader's attention thereto. I can furnish the Honorable Senate Committee on Pacific Railroads with the name of the party who "borrowed" the important contract with the above Company, and can contradict some testimony given by a certain official of the Central Pacific before the late Commission regarding this subject. Furthermore, I will furnish the Committee with a copy of what I am satisfied was the agreement with the Contract and Finance Company for the construction of the road East of the California State line. I have not shown it here, as it is rather lengthy, but I expect to be able to fully establish its genuineness. I have extracts of other contracts besides, made by the Directors, which were recorded in the book of "Record of Corporation Debts," referred to herein. I intend to be in Washington during the coming session of Congress, and will be pleased to personally verify and explain what I have written.

In these pages I wish to show, to those interested, the feasibility as well as the necessity of placing the Central Pacific and its auxiliary lines in other hands; that the Directors have no regard for the rights of others, but have always operated the roads for their individual gain; and that they are also in the habit of taking unusual precautions to protect themselves and their estates from liability for their misdeeds—precautions such as are only necessary when trusts are being violated.

By their rascality and deception, practised against the stockholders, they have up to the present time prevented justice being dealt out to them through the courts. Their day of reckoning with the Government is now close at hand, and they should be held strictly to account; otherwise the Government will have no trouble in finding reliable parties willing to pay the debt and operate the road for the benefit of all interested.



# CENTRAL PACIFIC RAILROAD.

When the Central Pacific Railroad Company of California was organized, on June 27, 1861, under the Act of the Legislature of California, dated May 20, 1861, it had nine Directors, as follows:

LELAND STANFORD  
CHARLES CROCKER,  
JAMES BAILEY,

T. D. JUDAH,  
L. A. BOOTH,  
C. P. HUNTINGTON,

MARK HOPKINS,  
D. W. STRONG,  
CHARLES MARSH.

By one way or another, all but four of these were soon dropped, and Messrs. Stanford, Huntington, Hopkins, and Crocker thereby secured exclusive control in the management of the Company's affairs; they having shortly afterward reduced the requisite number of Directors from nine to seven.

The four mentioned had subscribed for 150 shares each of the capital stock, but their combined means were very small. It was owing, in fact, to the liberal and timely assistance of the United States Government that the construction of both the Central and Union Pacific roads progressed rapidly, and their early completion insured, resulting as it did in a saving of seven years of the time allowed by the Act granting the aid. The connection was made in May, 1869. Thus the Companies received the benefit of seven years' additional earnings; besides which the Government promptly issued its bonds as sections of the road were finished, taking as security a second lien on the property, and allowing the Companies to issue first mortgage bonds of their own.

The following report of the earnings of the Central Pacific up to 1884 is of interest:

The operation of the Company appears to have been successful from its very inception. During the earlier years the Company was entirely free from competition and charged very high rates, both for freight and passengers. The result of this is shown in the percentage of operating expenses as compared with the gross earnings, which, during the early period of the Company, were as low as 23½ per centum per annum, and at no time prior to 1875 exceeded 40 per centum per annum.

From 1863 to the 31st of December, 1869:

The gross earnings were.....	\$10,807,508.76
Operating expenses.....	4,700,624.56
Leaving net earnings.....	6,106,884.20
Other credits.....	374,045.63
	<u>6,480,929.83</u>
Interest and taxes paid, and Government requirements.....	4,053,396.03
Leaving absolute net.....	<u>2,427,533.80</u>

From the 1st of January, 1870, to the 31st of December, 1873, in which latter year the first dividend was paid:

The gross earnings were.....	41,128,618.21
Operating expenses.....	17,485,371.69
Leaving net earnings.....	23,643,246.52
Other credits.....	2,167,318.29
	<u>25,810,564.81</u>
Interest and taxes paid, and Government requirements.....	19,235,045.49
Leaving absolute net.....	<u>6,575,519.32</u>

From the 1st of January, 1874, until the 1st of January, 1884, which was the end of the dividend-paying period of the Company:

The gross earnings were.....	\$194,126,239.24
Operating expenses.....	108,431,267.78
Leaving net earnings.....	85,694,971.46
Other credits.....	8,191,532.17
	93,886,503.63
Interest and taxes paid, and Government requirements.....	41,349,586.64
Leaving absolute net .....	52,536,916.99

During the period last mentioned the Central Pacific Railroad Company distributed to its stockholders in dividends the sum of \$34,308,055. (See volume 5, page 2547.) But little stock was sold by Stanford, Huntington, Hopkins, and Crocker until 1880. Between 1873 and 1877 they were substantially the only stockholders of the Central Pacific Railroad. Nearly the entire amount of dividends declared during these years was therefore received by those four persons.

Tested by the simple question of earnings, it is true that all of the above-mentioned dividends appear by the income account of the Company to have been earned. But the distribution of this vast sum of money to these four persons, whose stock represented no contribution whatever to the actual value of the railroad, was most improvident, and was in plain disregard of the obligations incurred by the Company to the United States. The Company had agreed to repay the debt and interest at the expiration of thirty years. How could it be possible, if the stock represented no actual contributions to the earning power of the Company, and the earnings themselves were divided up among the stockholders, that adequate security could be found for the debt due to the United States, increased by the vast amount of its deferred interest, at the maturity of the debt?

The actual amounts put into the enterprise were the proceeds of the first mortgage bonds and of the United States loan; in all, about forty millions of dollars. By what magic was it expected that this property, after the wear and tear of thirty years' use, could afford any sufficient security for the repayment of its extravagant cost, increased by the interest accruing on a large portion of its debt, if all its current earnings were distributed to its stockholders, without making provision for the constantly increasing obligation? The ordinary dictates of prudent and honest management should have impelled the Directors of this Company to make suitable provision out of the large earnings, during the profitable years of its operation, to cover this impending debt. (Report Majority Commission, p. 87.)

Under the laws of the State of California, stockholders are liable for the debts of the Company. It was not until after Congress voted the aid that Stanford & Co., on Oct. 22, 1862, each subscribed for an additional five hundred shares. They paid no money for the stock, however, but voted large sums to themselves as Directors, for "extra services," salaries, etc., and credited a portion thereof on account of their subscriptions. At no time did they risk any of their private means in the enterprise, and from the very first charged the Company liberally for their services.

In contrast to this it may be stated that there are to-day several original subscribers who still hold their certificates of stock, having paid cash therefor in full; and although they were liable for the Company's debts, up to the present time they have never received a cent of its profits. They properly refused to exchange their original holdings, share for share, for the capital stock when increased from \$8,500,000 to \$100,000,000, and are so denied the dividends since declared.

The first contract for the building of sections of the road was let to Charles Crocker, who thereupon resigned from the board, his brother, E. B. Crocker, taking his seat as Director.

"C. Crocker & Co.," as he styled himself, then submitted a proposition to the Directors to construct the road from the foot of K Street, in Sacramento, to the line of the California Central Railroad Company, known as Roseville Junction, a distance of eighteen miles, for \$400,000; terms. \$250,000 in cash, \$100,000 in Company's bonds. and \$50,000 in capital

stock. The second and third contracts were also let to C. Crocker & Co. None of them were ever submitted to the stockholders for approval.

The following extracts from the Company's by-laws of 1862 will give an idea of the powers of the Chief Engineer, Mr. T. D. Judah, who was also a director :

SECTION 14. All subordinate officers and agents of the Company shall be appointed or employed by the Board of Directors or Chief Engineer. . . .

SECTION 15. . . . ; and the President, or Chief Engineer, may remove at pleasure any subordinate officer or agent. . . ."

On September 12, 1863, C. Crocker presented the following bill against the Company, showing Mr. Judah's allowance of same :

CENTRAL PACIFIC RAILROAD COMPANY OF CALIFORNIA.

To C. CROCKER & Co.,	Dr.
3 wooden piers, American River Bridge.....	\$6,000 00
30 extra piers, " " .....	540 00
300 c. yds. cobbles, " " \$12 .....	3,600 00
Extra bents " " trestling.....	500 00
Curves and levees on I Street route.....	10,000 00
Interest upon advances.....	1,236 00
7,500 extra ties, delivered, at \$70.....	5,250 00
Total .....	\$27,120 00

SACRAMENTO, September 12, 1863.

Approved to the extent of \$25,500.

THEO. D. JUDAH, *Chief Engineer C. P. R. R. Co.*

It will be seen that Mr. Crocker was not modest in his charges at this time. But as his bills passed through Mr. Judah's hands before payment, it proved to be an obstacle to Crocker, preventing the payment of his future bills at his own prices. For no other known motive than to gain the good will of the Chief Engineer, on September 19, 1863, he entered into an agreement with that officer, of which the following is a copy :

For value received I hereby agree and bind myself that I will, upon the completion of fifty miles of the Central Pacific Railroad of California, from the foot of K Street in the City of Sacramento, eastwardly, so that a train of cars can run through on the same, deliver or cause to be delivered to T. D. Judah, his heirs, executors, or administrators, fifty of the First Mortgage Bonds of the Central Pacific Railroad Company of California, for one thousand dollars each, with all the interest coupons attached thereto which are not then due ; said bonds to be of the first issue of mortgage bonds of said Company, bearing date December 1, 1862, of which Eugene Kelly and David S. Dodge are trustees. This agreement not to be assigned or transferred to any person without my written consent endorsed thereon.

(Signed) C. CROCKER.

SACRAMENTO, September 19, 1863.

This agreement was made when Mr. Crocker was not a Director of the Company, but simply a contractor. Nevertheless, he could give away fifty thousand dollars of the Company's bonds, while the Chief Engineer accepted his written promise as a sufficient hold on the Company. In other words, Crocker was still a power in the Company.

To one not familiar with the allowances the Directors voted to themselves, not only as salaries but for "extra services," it would appear that during the early construction they experienced great hardships, and, according to the statements of some of them, were frequently penniless, having spent their private means in the enterprise. The Company's records prove this to be false. Resolution of Directors July 1, 1863, shows:

For services as President and for furtherance of the interest of the Company otherwise, Leland Stanford is allowed \$10,000 per year from the 28th day of June, 1861, to



the present time; T. D. Judah, \$10,000 as salary from the organization of the Company; "also \$25,000 for services as agent in furthering the interest of this Company in the Atlantic States, and for services prior to the organization of this Company;" James Bailey (the Secretary) allowed \$25,000 "for services in the Atlantic States and California during the past two and one-half years;" C. P. Huntington, \$25,000 for services since June 28, 1861, to date; also \$10,000 a year salary.

Resolution of September 5, 1864, allows:

Leland Stanford, \$10,000 for salary; Mark Hopkins, \$10,000; C. P. Huntington, \$25,000; A. P. Stanford, \$5,000; C. Crocker, \$10,000; E. B. Crocker, \$5,000; also \$18,000 for additional back services; C. P. Huntington, \$25,000 "as compensation for his financial services, agent and attorney, for attending to business and rendering services in Washington and New York for the year ending July 1, 1864."

The above are samples of the resolutions passed annually. Up to July 1, 1864, over \$250,000 was thus voted to themselves, part payment being made in cash and part in capital stock. C. Crocker, it will be noticed, was allowed a salary in the second resolution. A couple of months prior to the resolution of September 5 he was appointed General Superintendent of the road, while still engaged as contractor, while the salary covered the past year.

At a Directors' meeting held in June, 1865, at which were present Leland Stanford, E. B. Crocker, Mark Hopkins, and E. H. Miller, Jr., many of the prices in the Crocker contract were advanced. In the report of the Majority Commission, page 70, reference is made to these prices as giving an idea of the cost of the construction to the Central Pacific. It should be remembered, however, that they were only allowed in the Crocker contracts, in which the other Directors were equally interested. On this point the Commission conclude as follows:

The Commission endeavored, by the examination of numerous witnesses, to ascertain the cost of this construction to Charles Crocker & Co. (see evidence of Strowbridge, vol. 6, pp. 3103 to 3111, and 3147; Arthur Brown, vol. 6, pp. 3602 to 3605; Clement, vol. 6, pp. 3202 to 3233).

The rates appearing on the face of the estimates above referred to are largely in excess of the rates fixed by those witnesses as the usual rates at the time of construction (see evidence of Clement, vol. 6, pp. 3206 to 3210).

The persons mentioned by the Commission, Messrs. Strowbridge, Brown and Clement, superintended different portions of the construction of the road.

Let us take for example the single item of grubbing. It had, up to the time the prices were changed, been done by C. Crocker & Co., and also by outside parties, for \$200 per section. At the above meeting the price was advanced to \$2,000 per section. The Secretary of the Company, E. H. Miller, Jr., was one of the four Directors present; but when Mr. Crocker put in his next bill against the Company, rather than dare assume the responsibility of allowing such a ridiculous price for the grubbing, the Secretary wrote out a notice to himself and had Mr. Stanford sign it. The following is a copy, the original of which is in the Secretary's handwriting:

OFFICE C. P. R. R. Co.,  
SACRAMENTO, March 6, 1866.

E. H. MILLER, JR., *Secretary*:

I hereby notify you that pursuant to and in accordance with an order of the Board of Directors, passed at the meeting held June 6, 1865, the price for grubbing and clearing Section No. 50 and beyond has been agreed upon, between Charles Crocker and myself as President of the Company, at two thousand dollars (\$2,000) per section.

LELAND STANFORD, *President*.



As an instance of the loose manner in which the Directors dealt with Crocker & Co., I will cite the following :

A resolution adopted September 5, 1864, refers to the communication from C. Crocker & Co., of September 1, 1864. After cancelling the contract, as requested in the communication, the resolution continues :

also to settle with said C. Crocker at the same prices and in the same manner for the work done and materials furnished in constructing the railroad of the Company, until the further order of the Board of Directors, or until further arrangements shall be made for the construction of said railroad.

Thus was Crocker released from his contract without any apparent reason, or stating even what was due or paid to him from the \$400,000 mentioned in the contract. It seems to have escaped the notice of the Commission while investigating, that, from the time of passing the above resolution until the formation of the Contract and Finance Company, the Directors allowed Mr. Crocker to go on with the work of construction without any contract. Consequently, when they (the Commissioners) were endeavoring to learn something about the missing Crocker contract, they evidently supposed that it covered the construction as far as the State line of California; whereas the only contract made with C. Crocker & Co. was the one referred to heretofore, covering the first eighteen miles of the road. It is true that Crocker carried on the work to the State line, but not under contract; the Company's minutes will show this.

Referring to the construction by Crocker, the Commission, page 71 of their report, state :

Leland Stanford testified that Charles Crocker had no partners; but it appears from his own evidence (vol. 5, p. 2637) that all the stock received by Charles Crocker under these contracts was turned over to the corporation known as the Contract and Finance Company, in which Stanford, Huntington, Hopkins, and Crocker, were substantially the sole stockholders. The amount of stock so turned over was about \$14,000,000. (See evidence of Stanford, vol. 5, pp. 2648 and 2649.) It is clearly established by the evidence that these four gentlemen were at all times equally interested in the results of these contracts, and that whether the formal relation of partner existed between them or not, it was understood and agreed between them that they should share equally in all the profits of the enterprise.

The Crocker contracts were awarded to C. Crocker & Co. by the votes of Stanford, Huntington, Hopkins, and Crocker. The profits arising out of these contracts were divided among these four persons; and this same singular feature will be found to pervade all contracts for construction, for repairs, for branch lines, for leases of the auxiliary lines, for the express business, for the sale of material, and for the sale of coal, as to all of which, through the intervention of construction companies, or development companies (in all of which these four persons were substantially the only stockholders), all of the contracts have been awarded by the votes of Stanford, Huntington, Hopkins, and Crocker. (Stanford's Evidence, vol. 5, p. 2789.) In all of these cases the profits resulting therefrom have been divided between them. In some exceptional cases there has been a fifth party in interest,—either Mr. E. B. Crocker, the brother of Charles Crocker, or Mr. David M. Colton,—in which cases the profits have been divided by fifths instead of by fourths.

In the opinion of the Commission, the course pursued in this respect is wholly indefensible. The agreement of the Company, when it received the munificent aid extended by the United States, was to repay the loan and so much of the interest as had not been repaid by transportation or percentages of net earnings at the expiration of thirty years. The course pursued by Stanford, Huntington, Hopkins, and Crocker was necessarily absolutely destructive of any possible security. . . .

Following are some of the resolutions allowing bills of C. Crocker & Co. for extra work. Since there was no contract defining what would constitute "extra work," the Directors were at liberty to include anything they cared to.

Charles Crocker presented a bill for extra work for months of January and February

amounting to \$115,250.05, which, on motion of Mark Hopkins, was allowed and ordered paid. (Resolution, March 22, 1866.)

The President reported on bills for extra work, presented by C. Crocker & Co. for the months of March, April, and May, amounting in the aggregate to \$133,586.93; that the same were correct and reasonable and should be allowed; when, on motion of Mark Hopkins, the same were allowed, and the President and Secretary directed to draw their warrant on the Treasurer for the amount. (Resolution, June 27, 1866.)

President Sanford presented a bill from C. Crocker & Co. for work done and materials furnished on line of road, and stated that the same had been examined and found correct; the same was allowed, and the President and Secretary was ordered to draw their warrant on the Treasurer for the amount of said bill, to wit: \$296,504.22." (Resolution, May 10, 1867.)

Leland Stanford, President, presented C. Crocker's bill for extra work, amounting to \$173,785.27, and reported that he had examined the same and found it to be correct, and, on motion, the bill was audited and allowed and ordered paid. (Resolution, January 3, 1868.)

Similar resolutions were passed, approving bills of the Contract and Finance Company for extraordinary amounts. One resolution allowed payment to that Company, amounting to \$11,038,630.13, "for final payment on contract." After taking into consideration that the four principal Directors had an understanding as to the division of the profits between them, the reader will at least assume that the Central Pacific owed the men nothing after paying such bills for the work. And yet they have since pictured the hardships they underwent at the time; whereas the scanty records found in their minute-books, which happily were not "lost," show how they fared. One is forced to agree with the Majority Commission, *i.e.*, that their course alone prevented the road from keeping its part of the agreement with the Government.

The Directors let a contract, dated September 26, 1863, to Collins & Bro. of Stockton, Cal., to build sections Nos. 19 and 20 of the road, at fixed prices. Mr. Crocker induced them to assign their contract to the Central Pacific Railroad Company of California. The following is a copy of the assignment appearing on the back of Collins' contract:

For a valuable consideration we hereby release and surrender the within contract to the Central Pacific Railroad Company of California, and hereby authorize the said Company to take immediate possession of the work herein described. December 23, 1863. C. Collins & Bro.

No mention of such an assignment appears in the Directors' minutes so that Mr. Crocker must have represented the Company on this occasion also. However, he finished the work at an additional cost to the Company of over \$4,300, as follows:

To cost, as per contract with Collins & Bro.:	
85 % cash.....	\$11,180.05
15 % stock.....	1,972.95
Total cost sections 19 and 20.....	\$13,153.00
Allowed Crocker & Co., as per final estimates :	
Section 19.....	\$1,438.17
Section 20.....	16,037.13
Actual cost sections 19 and 20.....	\$17,475.30

Before passing from the subject of construction work done by C. Crocker & Co., I will present to the reader copies of two reports submitted by the Company's Chief Engineer. The information given therein is very important in the absence of the books showing the cost of construction. The reports include some of the heaviest work encountered on the line; and no one was better qualified to estimate the probable cost to the Company than Mr. Judah. The only real difficult construction was in crossing the

Sierra Nevada mountains; on either side the course is principally over plains, and it was a common feature for the workmen engaged in laying the rails to try to exceed each day the distance covered on the previous one. Mr. Judah had a high reputation as a civil engineer, was thoroughly acquainted with the route surveyed, and understood the cost for the necessary material and labor used in construction. One of the reports, it will be observed, is not dated. As it contains a reference to sections 19 and 20, which were awarded under contract to Collins & Bro. as above, on September 26, 1863, the report was evidently made after September 19, 1863, the date of Mr. Crocker's present to Mr. Judah. Whether this influenced the Chief Engineer in fixing his estimates as shown, at over \$500,000 above his previous allowance, cannot of course be known. Mr. Judah's death occurred in November, 1863. The reports follow :

#### FIRST DIVISION.

The First Division of fifty miles will extend from the foot of K Street, City of Sacramento, to what is termed Applegate Summit, about twelve miles via Railroad beyond Auburn, and about eight miles below Illinoistown.

It will embrace about thirty miles of moderately light work, while the upper twenty miles may be fairly considered as heavy work, requiring at least one year as the shortest time in which the grading can be completed.

The grading, masonry, bridging, ties and track laying of the first eighteen miles, or to the line of California Central Railroad, is under sub-contract to be completed by August 15, 1863, and is progressing with satisfactory rapidity.

The iron chairs and spikes and equipment for same should be shipped during the months of March and April, 1863, in order to arrive here in time to be laid down without delay.

The grading, masonry, etc., upon the next twelve miles, or to the Auburn Station, upon present Sacramento, Placer, and Nevada Railroad, by working a heavy force, can be completed in about four months, although it would be much safer to allow six months' time for its completion.

In order to complete it so that the work of track laying can go on uninterruptedly, it should be placed under contract by June 1, and completed by November 1, 1863. The ties should be contracted to be delivered during the months of September and October. The iron chairs and spikes should be shipped from New York in May and June, 1863.

The upper twenty miles of road will require at least a year to build.

Allowing three months for track laying, and it will require to be placed under contract by September 1, 1863. The iron chairs and spikes and balance of equipment should be shipped from New York during the months of March and April, 1864.

I estimate the entire cost of this division at \$2,500,000.

#### SECOND DIVISION.

The second division of fifty miles will extend to about twenty-eight miles above Dutch Flat, or within about ten miles of the Summit.

This division is required to be completed by December 1, 1865, or say in two years and eight months, and should be placed under contract by November, 1863.

Some of the heaviest work on the whole line will be found on the first twenty-five miles of this division, which reaches to about four miles above Dutch Flat, or to the snow line, comprising the heavy work on Long Ravine, Secrettown, and probably four tunnels.

The upper twenty-five miles comprises the heavy work upon Bear River, Side Hills, and the South Yuba, extending up to what is known as Wilson's Cutoff, on the South Yuba.

The iron chairs and spikes for this division should be shipped from New York by February, March and April and May of 1864, at the rate of about 1,200 tons per month, and the equipment at about the same times.

It will take about six months to lay the track. The ties for the lower half of this division will probably require to be of redwood, and should be contracted to be delivered in May, June, and July, 1864.

The upper twenty-five miles of this division (as also the next twenty-five miles of the third division) will embrace what is known as the snow line, and cannot be



worked with the same facility or at the same rate of progress as the lower divisions of this road.

Eight months of the year, from April to November, is the utmost length of season that can be counted on for working. I regard it, therefore, as absolutely necessary that there should be at least two seasons allowed for performing the grading of this (second) division, and that upon the upper twenty-five miles all the lighter portions of the grading be performed in the summer time.

I estimate the entire cost of this division in round numbers at \$5,000,000.

### THIRD DIVISION.

The third division extends from a point about ten miles westerly of the Summit to a point near Stott's Crossing of the Truckee.

The first ten miles to the Summit will not contain so great a proportion of rock cutting as exists upon the middle division.

The next three miles, from the Summit easterly, will be very heavy and difficult; and ten miles further, of pretty heavy work, carries us to the Truckee River, at about 123 miles from Sacramento, and at the foot of the heavy grade.

This division will require at least two years to complete, and should be placed under contract by November 1, 1864.

I think that the heaviest rock cuttings upon this division can be worked in the winter time.

The ties for the entire division can be procured along the line.

Its cost will not fall short of \$5,000,000.

Very respectfully,

(Signed) THEO. D. JUDAH,  
Chief Engineer C. P. R. R. Co.

March 24, 1863.

Thus, it will be learned, with the third division ends the heavy grade, the part which the Directors have since laid so much stress upon as to the expense, which Mr. Judah considered to cost about \$5,000,000. The Government will do well to take note of this. The other report, without date, is as follows:

### COPY.

HON. LELAND STANFORD, *President C. P. R. R. Co.*

DEAR SIR: Herewith accompanying please find approximate estimates of cost of Sections 19 to 68 inclusive, as per your request; also the relative proportions of cash, stock, and bonds.

The summary will be found on the last page.

Very truly yours,

(Signed) THEO. D. JUDAH,  
Chief Engineer C. P. R. R. Co.

Approximate estimates of the amounts of cash and stock, accruing under contracts, Sections 19 to 31, inclusive.

SECTIONS.	85 per cent. Cash.	15 per cent. Stock.	Total.
19 and 20, C. Collins.....	\$11,180.05	\$1,972.95	\$13,153
21, 22, 23, 24, Turtton, Ryan & Knox.....	23,171.85	4,089.15	27,261
25, 26, 27, Chas. Bates.....	30,648.05	6,584.05	37,233
28 and 29, S. D. Smith.....	50,108.00	8,842.00	58,950
30 and 31, C. Crocker & Co.....	87,576.35	15,454.65	103,031
Totals.....	\$202,684.30	\$36,944.00	\$239,628

The above estimates are from approximate quantities at the contract prices at which the above sections were awarded. They are intended to be liberal, and the final estimates should come within the above figures.

(Signed) THEO. D. JUDAH,  
Chief Eng'r C. P. R. R.

Approximate estimate of the cost of Sections 32 to 50, inclusive, at the following prices:

687,500	cubic yards	earth excavation,	at	\$0.38	\$261,250
180,000	"	cement "	"	0.75	138,000
222,500	"	semi-solid rock excavation,	"	1.35	300,375
173,500	"	solid rock excavation,	"	2.00	347,000
5,000	"	tunnelling,	"	7.50	37,500
4,125	"	exc. foundation,	"	1.00	4,125
5,666	"	culvert masonry,	"	15.00	84,990
1,555	"	rubble bridge masonry,	"	20.00	31,100
2,835	"	cement mortar,	"	5.00	14,175
191,500	feet B. M.	timber in structures,	"	65.00	12,447
15,200	"	plank,	"	50.00	760
14,300	lbs.	iron,	"	0.12	1,716
88,000		cross ties,	"	0.80	70,400
33	miles	track laid,	"	800.00	26,400

Total cash cost at above prices .....\$1,330,238

In the proportion of  $\frac{1}{2}$  cash,  $\frac{3}{8}$  stock at 50 cents on the dollar, and  $\frac{1}{8}$  bonds at 60 cents on the dollar, the amounts will be as follows :

$\frac{1}{2}$ cash	.....	\$669,080
stock at 50 cents on the dollar	.....	1,003,620
bonds at 60 " "	.....	278,783

Or a total of .....\$1,951,463

The above estimate of quantities is liberal.

(Signed) T. D. JUDAH,  
Chief Eng'r C. P. R. R.

Approximate estimate of the cost of Sections 51 to 56, inclusive, at the following prices :

185,000	cubic yards	earth excavations,	at	\$0.38	\$70,300
63,000	"	cement "	"	0.75	51,000
42,000	"	semi-solid rock excavation,	"	1.50	63,000
31,159	"	solid rock excavation,	"	2.00	63,318
2,000	"	foundation,	"	0.38	760
5,000	"	tunnelling,	"	7.50	37,500
2,500	"	culvert masonry,	"	15.00	37,500
850	"	rubble bridge masonry,	"	20.00	17,000
1,500	"	cement mortar,	"	5.00	7,500
70,000	feet B. M.	timber in structures,	"	65.00	4,750
10,000	"	plank,	"	50.00	500
5,000	lbs.	iron,	"	0.12	600
14,400		cross ties,	"	0.80	11,520
6	miles	track laid,	"	800.00	4,800

Total cost at above prices .....\$396,048

In the above proportion of  $\frac{1}{2}$  cash,  $\frac{3}{8}$  stock at 50 cents on the dollar, and  $\frac{1}{8}$  bonds at 60 cents on the dollar, the amounts will be as follows :

$\frac{1}{2}$ cash	.....	\$198,024
stock at 50 cents on the dollar	.....	297,036
bonds at 60 " "	.....	82,510

Or a total of .....\$577,570

(Signed) THEO. D. JUDAH,  
Chief Eng'r C. P. R. R.

Approximate estimate of cost of Sections 57 to 68, inclusive. The quantities upon final location of this portion of the work not yet having been calculated, the cost of this division of twelve miles has been taken from the approximate estimate in report of the Chief Engineer, date of October 22, 1862, as follows :

Long Ravine to Gravel Ridge, 9 miles,	at \$110.000	\$990,000
Gravel Ridge to Dutch Flat, 3 " "	85,000	255,000
		<u>\$1,245,000</u>

If this work is let at the prices of preceding subdivision, in the proportion of  $\frac{1}{2}$  cash,  $\frac{2}{3}$  stock at 50 cents on the dollar, and  $\frac{1}{3}$  bonds at 60 cents on the dollar, the amount will be as follows:

$\frac{1}{2}$ cash.....	\$622,500
$\frac{2}{3}$ stock .....	933,750
$\frac{1}{3}$ bonds.....	259,375
A total of .....	<u>\$1,815,625</u>

The above estimate contemplates permanent embankments and structures of masonry and one tunnel.

(Signed) THEO. D. JUDAH,  
Chief Eng'r C. P. R. R.

Summary of approximate estimate of cost of Sections 19 to 68, inclusive :

	Cash, 85%.	Stock, 15%.	Bonds.	Total.
19 to 31 inc.....	\$202,684	\$36,944		\$239,628
	$\frac{1}{2}$ Cash.	$\frac{1}{2}$ Stock—50c.	$\frac{1}{2}$ Bonds—50c.	
31 to 50 “ .....	\$669,080	\$1,003,620	\$278,783	\$1,951,463
51 to 56 “ .....	198,024	297,036	82,510	577,570
57 to 68 “ .....	622,500	933,750	259,375	1,815,625
	<u>\$1,692,288</u>	<u>\$2,271,350</u>	<u>\$620,688</u>	<u>\$4,584,306</u>

#### RECAPITULATION.

Cash.....	\$1,692,288	Per Mile.....	\$33,845
Stock .....	2,271,350	“ .....	45,427
Bonds.....	620,688	“ .....	12,413
	<u>\$4,584,306</u>		<u>\$91,685</u>

N. B.—Original estimates for same distance, including iron equipment, etc., \$4,045,000.

(Signed) THEO. D. JUDAH,  
Chief Eng'r C. P. R. R.

If the Government wishes to arrive at a proper cost to the Company for constructing the entire Central Pacific, the above two reports would furnish a satisfactory basis. They should be accepted instead of the testimony of the Directors and their employés without the construction books and contracts to verify their statements.

It was at first the intention of the Directors to continue the work of construction as heretofore, east of the California State line, and the draft of contract (with C. Crocker & Co.) was drawn up by Mr. E. B. Crocker, with the following charges:

	\$51,000 in Gold.
	15,000 in Capital Stock of the Company.
Total,	<u>\$66,000</u> per mile to a connection with the Union Pacific.

These figures were afterwards ruled out and this significant notation was made: “Leave a whole blank line for each of these two sums.” As has since been learned, the Central Pacific was finally charged just \$20,000 more per mile than the above, or \$86,000 per mile; a total additional charge of \$5,540,000 for the 552 miles yet to be built.

The fraudulent management by the Directors had begun to assume such proportions that few people had any faith in them, and it looked extremely doubtful if they really intended to finish the road. They evidently feared that they would soon have to account to the stockholders or the Government for money they had appropriated to themselves. The



enormous profits of the past, and the prospects for the future, prevented them from allowing others to assist in the work. To give the contract the appearance of outside capital being interested therein they changed the title in the above contract from "C. Crocker & Co." to the "Contract and Finance Company," adding the additional \$20,000 in the charges per mile, otherwise the conditions in the above draft were not materially altered. The Contract and Finance Company was incorporated on December 3, 1867, with W. E. Brown, T. J. Millikin, and B. R. Crocker as the stockholders: it is hardly necessary to say that they were not the stockholders, but the dummies of Stanford & Co. It was simply an attempt to throw off the yoke of suspicion that the Directors were to be the only beneficiaries under the contract, as heretofore.

At their Directors' meeting, held December 3, 1867, Stanford offered the following resolution:

The President reported that he had made arrangements for a contract with the "Contract and Finance Company" for the construction and equipment of the railroad and telegraph line of this Company, lying east of the eastern boundary line of California, and presented a draft of such contract; the same having been read and considered, the following resolution and order was unanimously adopted, to wit:

*Resolved* and ordered that this Company hereby consents and agrees with the Contract and Finance Company to the terms, stipulations, and conditions of the articles of agreement submitted by the President to this Board, and the President and Secretary are hereby authorized and directed to execute the said contract on behalf of this Company and to attach the corporate seal thereto.

The false front assumed by Stanford & Co. on the above occasion is precisely their method of to-day, which I will presently expose, in the matter of leasing the Central to the Southern Pacific Company. Although the Contract and Finance Company was composed of the principal Directors, it is doubtful if the Central could have fared any worse at the hands of persons with no interest in the road. By their operation of this private Company they hopelessly burdened the road and darkened its future; and yet to-day finds them still in control, enormously enriched by their misdeeds, and fighting down every measure calculated to either collect the debt, or reasonably extending its time of payment. Even this much might have been overlooked by an indulgent public had the Directors reformed in their management of the roads to-day.

The operations by the Contract and Finance Company are too well known to need any special mention; I will pass it in silence, quoting first an extract from the report of the Majority Commission, page 72:

Under this contract (Contract and Finance Company) the road was constructed between the points indicated, a total of 552 miles, at a cost of \$23,726,000 in stock, and \$23,726,000 in gold. It is a noticeable fact that Mr. Miller testifies that at the time he voted for this contract, and at the time he voted for the Crocker contract and its extension, he was not informed that the Directors of the Central Pacific were also beneficiaries under the contracts. (See evidence of E. H. Miller, Jr., vol. 5, p. 3061, 3062.) The Commission have made diligent effort to ascertain the actual cost of construction of the railroad to the Contract and Finance Company, and, in their opinion, have arrived at a conclusion which cannot be far from the truth. An accurate answer to this question would be shown by the books of Charles Crocker & Co., and of the Contract and Finance Company. These books were not produced, and, in the opinion of the Commission, were purposely destroyed by direction of Stanford, Huntington, Hopkins, and Crocker. The evidence on this point appears to be conclusive.

To this I can add a chapter regarding the destruction of a State record-book which the Directors also considered objectionable. Neither the Investigation Commission, the stockholders, nor the State authorities have up to the present time ascertained that such a book, once in existence, was also "suppressed."

Section 10 of the Act of the Legislature of California, dated May 20, 1861, and under which the Company was incorporated, reads as follows :

**SECTION 10.** The Directors shall also cause to be kept a book, to be called "Record of Corporation Debts," in which the Secretary shall record all written contracts of the Directors, and a succinct statement of the debts of the Company, the amount thereof, and with whom made, which book shall at all times be open to the inspection of any stockholder, or party in interest. When any contract or debt shall be paid, or discharged, the Secretary shall make a memorandum thereof, in the margin, or in some convenient place in the record, where the same is recorded. No contract shall be binding upon the Company unless made in writing.

As may be inferred from the foregoing, this book, if produced, would throw considerable light on the cost of the road; should, therefore, a former stockholder of the Central Pacific of California, or the Government, demand of Stanford & Co. the production of this book, their answer can only be surmised. It is not "missing" as in the case of the Construction Companies' books, but was kept as required until the management became altogether indifferent as to the consequences, so complete were their entanglement. When they decided to make way with the construction books and papers, they cut out the leaves of the State book containing entries, pages 48 to 111, inclusive, and also scratched out the labelling appearing on the back. In this mutilated condition the book was stored away in the Secretary's back office. The Commission evidently did not read over the requirements of the Act of 1861, for I am certain they did not learn of the above facts. Notwithstanding its present condition, I possess ample evidence to prove the facts as I have stated them. Such a method of concealing their dishonesty reminds me of the habit of the ostrich, on being run down, burying its head in the sand to escape discovery.

During the entire construction of the road the Directors put as little information as possible on record when writing their proceedings in the minute-book; considering their acts at the time, however, it is not surprising. An example is furnished in the resolution of February 18, 1869, as follows :

*Resolved and Ordered,* That the President and Secretary are authorized to execute and deliver to the Contract and Finance Company the promissory notes of this Company for the amount of cash due said Company, in such sums as said Company may require, payable one year from date to said Company, or bearer, with interest, at ten per cent. per annum, payable quarterly, principal and interest payable in United States gold coin.

It would be well if the Government should now hold the Directors as strictly to their agreement as they treated the Central in all of its transactions with the Contract and Finance Company. Because, by their heavy charges, they had cleaned out the money on hand in the Central Pacific treasury, it did not prevent Stanford & Co. from exacting ten per cent. interest on the balance to be paid. The amount of indebtedness does not appear, but it is safe to assume that it represented all of the road's profits for the year to which the debt was extended.

It has always been the custom of the Directors to loan the Central's surplus to their private Construction Companies, including the money set apart for the redemption of the Company's bonds. The practice was religiously followed during the time of the Contract and Finance Company; the only security the road received was its note and capital stock, issued on account of construction. As far as I could learn, the money thus borrowed was not returned. Neither have I ever succeeded in satisfying myself that Stanford, Huntington, and Hopkins redeemed their personal

notes they gave to the Central when the Contract and Finance Company dissolved partnership, with a debt owing to the former amounting to \$5,700,000. The Central Pacific resolution reads as follows, dated September 9, 1873 :

W. E. Brown presented the following, which was unanimously adopted, to wit:

*Resolved*, That the Secretary be directed to receive from the Contract and Finance Company the notes of Leland Stanford, Mark Hopkins, and C. P. Huntington, amounting to \$5,700,000, endorsed by said Contract and Finance Company, on settlement of its indebtedness to this Company, and credit the amount of same to the account of said Contract and Finance Company.

That such a Construction Company as this could have failed, when it existed for no other purpose than to make and turn over to the Directors of the Company the profits from building the road, is impossible,—unless the Directors, too, became involved. The fact that they started in with comparatively nothing, and now gave their notes on behalf of the embarrassed concern, answers the question. Why did not the Construction Company meet its own obligation, instead of the Directors dividing between themselves the millions of dollars which passed into its hands ?

The amount was charged on the Central Pacific books to “bills receivable.” From this account it gradually disappears, though an effort by the writer to trace the same was unsuccessful. Allowance has to be made for the Secretary’s peculiar style of bookkeeping, which Accountant Stevens reported, as the Government’s expert, the worst he had ever seen. I know it to be the custom of the Directors, whenever they charge themselves with certain duties, placing the same in resolution form in the minute-book, to offset such by a second resolution, upon discharging the duty; and there is certainly no such resolution subsequent to the above one, as doubtless would have been the case had the Central been actually paid the money covered by the notes. It was, in my opinion, systematically charged off to “profit and loss,” or a portion of it. I will show, by correspondence herewith given, that the Contract and Finance Company, at the time it dissolved, had still a balance undivided, and which was transferred to the successor Company, the “S. H. H. & C. Co.,” and credited to “profit and loss” account; amounting to \$2,608,292.29. Mr. Stanford himself, notwithstanding his habit of avoiding damaging admissions when testifying, acknowledged to the Commission that stock to the value of over \$50,000,000 was divided as a profit. (See evidence of Stanford, vol. 5, page 2669; and W. E. Brown, vol. 5, page 2979.) As such became a matter of record when transferred to their own names, it would have been useless to have denied it; large sums of money also went to them.

One of the principal excuses for the enormous cost of construction, stated by the Directors, was that of excessive freight rates charged by shippers around Cape Horn, in addition to the very high cost of the material purchased in the East.

Before Mr. Huntington started East to contract for the purchase of rails and rolling-stock and the shipment thereof, he entered into an agreement with Mr. Jas. P. Flint, in December, 1862, to pay the latter \$25,000 to accompany him and use his influence towards securing the most favorable terms and lowest prices. Mr. Flint was paid \$30,000 for the fulfillment of his agreement. Mr. Huntington contracted with several Eastern firms for the supply of material, and on terms which showed him to have been a very good buyer at the time, securing every concession possible. For example, the following letter, written by Mr. Huntington himself, to Secretary Miller, regarding charges on freight, will explain :



NEW YORK, March 9, 1865.

E. H. MILLER, Esq., Sacramento.

DEAR SIR: . . . As to the insurance charged by Lambard on iron per *Ellen Sears*, I will have him pay it back. . . .

Enclosed with this you should find five B/L for goods shipped on ship *Ne Plus Ultra*. They did not have the weight or measure of the goods on the B/L for the reason, as I was told by the shippers, that as the price was so much lower than any other freight that they had on the ship that they did not want to have the price appear on the manifest, and so I had them give me the weight and measure on a separate piece of paper, which I have pasted on each B/L.

(Signed) C. P. HUNTINGTON.

Also, I have it on the best of authority, personal recollections of gentlemen engaged in railroad material business in San Francisco at that time, and who verified their statements by showing their books, showing that the rate on that class of goods via Cape Horn was then between \$3 and \$4 per ton. A member of one of the houses still dealing in that material asserted positively that the freight on iron seldom reached and never exceeded \$6 a ton. This maximum figure, he allowed, might have been charged occasionally when there happened to be a scarcity of vessels in the harbors of New York or Boston, but, as a rule, ship-owners were glad to take the iron at almost any rate, in place of stone ballast, which otherwise would have to be taken, most of the cargoes consisting usually of light material. Furthermore, one of the contracts by Mr. Huntington arranged with Messrs. Glidden & Williams, under date of March 14, 1863, for the latter to attend to all of his shipping for one year from date, allowing Huntington the privilege of obtaining lower rates during that period, if possible. Freight was generally shipped by sailing vessel, but in a few instances, when there was an urgent need for a locomotive or car, it would be sent in pieces via the Isthmus of Panama, regardless of expense. The writer remembers a statement which was gotten up by one of the Company's officers, showing freight charges paid by the Company at that time, wherein such a case as just cited was given as a basis of cost for transportation of rolling-stock to California. Of course owners of steamships would charge considerable more than sailing vessels, having had as much business as they could well attend to in transporting passengers en route to California, and in which there was more profit than in handling freight.

By the terms of most of Mr. Huntington's contracts above referred to, the consideration was principally the Company's first mortgage bonds and also capital stock. Therefore, if the Company suffered any disadvantages in the matter of prices charged for material, it arose from that cause. Had the Directors used cash in such purchases, instead of reserving it for themselves when retailing the material to the road, the result would be different. As it was, they were finally obliged to use money, and I have not the least doubt but that they obtained all the benefits and considerations they could reasonably ask for. The price paid by the Directors for iron rail, as shown by Mr. Huntington's contracts, even when payment was made in bonds and capital stock, was about equal to the cost of sixty pound steel rail of to-day; that is, placing the same valuation on the bonds and stock as when issuing such to C. Crocker & Co., and the Contract and Finance Company, on account of construction. As the bonds and stock represented a road yet to be constructed, and on account of the rumors which were spread soon after its commencement regarding the Directors' management, it could hardly be expected that merchants in the East would accept its paper at any figure. A popular name given the enterprise in those days was "The Dutch Flat Swindle," and the prejudice against it was almost universal. The assistance which the

Government gave it alone carried it through, for the Directors were in no position to ask or even expect credit elsewhere. That the general suspicion cast at the time was well founded, regarding the integrity of these men, is now apparent, and the Government is, at present, at a loss to know how to get back its loan.

The wages paid to laborers engaged in the construction were less than those paid by the Company to-day. Chinese workmen were preferred to white men and the Directors have since stated that the former proved to be well fitted for the work, and that it was partly due to their industry that the work progressed so rapidly. The Construction Companies advertised for their help, and a copy of such advertisement will explain itself:

Central Pacific Railroad. 10,000 more Chinese laborers wanted to work on the Central Pacific Railroad. Thirty-one dollars per month, of twenty-six working days, will be paid in gold coin to each man. The wages will be paid promptly every month. Parties of twenty or more going to work will be carried over the railroad from Sacramento to the end of the road free.

CHARLES CROCKER & CO.

SACRAMENTO, January 7, 1867.

According to the reports of the Chief Engineer, heretofore shown, on the probable cost of constructing the heaviest part of the road, the Majority Commission allowed the Directors a very liberal margin when they came to the following conclusions on the subject:

In estimating, therefore, the actual cost of construction of the Central Pacific Railroad, of any branches which were constructed through contracts with the Contract and Finance Company, of any repairs done by that Company, or supplies furnished by it, we feel compelled to accept the rule of law which applies to all cases of suppressed evidence, and which raises against the party implicated in the suppression the very strongest presumption that the suppressed evidence, if produced, would testify against the party suppressing the same.

It is our judgment that the actual cost of construction of the Central Pacific Railroad from Sacramento to Promontory Point, and the purchase from the Union Pacific Railroad Company of forty-seven and one-half miles, a total distance of 737.50 miles, did not exceed the sum of \$36,000,000.

We base this conclusion on the examination of many witnesses as to the actual cost of railroad building and material during the years of construction, on the evidence taken of the character of the country, on the agreed price paid by the Central Pacific to the Union Pacific for forty-seven and one-half miles of the road between Promontory Point and a point five miles west of Ogden; and in reaching this conclusion, we have made, in our judgment, full allowance for all that appears in the evidence relating to the peculiar and difficult character of the work, to the excessive cost of building the road over the Sierra Nevadas, to the impediments offered by snow and stormy weather, to the unusual item of cost arising out of the construction of snow-sheds, and to the increased cost resulting from the rapidity with which the work was carried on and the necessity of expensive and unusual transportation of all material required for the construction of the road.

As this investigation is not in the nature of an accounting, it seems unnecessary to detail the facts and the figures. *Mr. Stanford's admission is that the \$54,000,000 of stock distributed by the Contract and Finance Company was substantially a net profit, subject only to the liquidation of an indebtedness of the Contract and Finance Company not exceeding \$3,000,000.* (See evidence Stanford, vol. 5, p. 2669; William E. Brown, vol. 5, p. 2979.) Report Majority Committee, pp. 74-5.

When the Company incorporated its capital stock was fixed at \$8,500,000. In October, 1864, it was increased to \$20,000,000, and again in July, 1868, to \$100,000,000. The reason assigned for the last named increase being "to complete the line to connect with the Union Pacific." Up to this time—1868—Leland Stanford had but 680 shares of stock standing in his name and which he voted in favor of the increase; C. P. Huntington had and voted 565 shares; while C. Crocker cast 39,475 shares, and the Con-



tract and Finance Company, by C. Crocker proxy, voted 102,100 shares for the resolution. The total number of shares voted at the meeting for the increase of stock to \$100,000,000 was 151,520 shares, of which it will be seen over 141,500 shares were controlled by C. Crocker and the Construction Company. The real object of the increase was to issue it to the Directors on account of construction. Their holdings, it may be said therefore, cost them nothing, while to many of the other stockholders and subscribers to the road this second increase was a severe blow. They had paid \$100 cash per share for their stock, yet by such additional stock which Stanford & Co. received, their loss was now complete. They had actually risked their private means,—some of them their all,—but their assistance, given at a time when most needed, was no longer required, since the Government's loan had placed millions of dollars at the disposal of the Directors. The investment by these people of small means, which at one time seemed to promise so well, came to nothing. Shortly after the connection with the Union Pacific had been effected, the Directors decided upon a general “house cleaning,” consolidated the Central Pacific of California, with other lines, which they had already purchased with the profits from the former, and named it the “Central Pacific Railroad Company.” They issued new certificates of stock and succeeded in inducing many (of the stockholders) to exchange their original stock share for share for that of the new, which of course had little or no value, while the stock of the Central Pacific of California, remaining outstanding, represented an important claim against Stanford & Co., arising from their crooked management. With the hope of securing all of the old stock, the payment of dividends shortly to be declared (on the new stock) was withheld from those refusing to exchange. This caused others to part with the stock to obtain what little was coming to them. The few shares still outstanding consequently possess great value, to be determined only by a suit for an accounting.

The first official notice of the charges made against them, which the Directors took, was a resolution inserted at the stockholders' meeting in August, 1871, as follows :

*Resolved*, That the management of the Directors and officers of this Company, from its incorporation to the present time, has been in all respects satisfactory to us, the stockholders of said Company, and that we hereby fully approve and endorse the same.

The names of the “stockholders” voting are not displayed with the resolution, and it is needless to state who they were.

A suit was finally brought against the Directors, in the names of Samuel Brannan and others, and the County of Placer, California, which occasioned a series of resolutions by the Directors, denying the charges, and they were also given a place in the stockholders' minutes. Out of the 625,640 shares voted, nearly all was controlled by the accused parties. The resolutions were then printed in the Company's annual report to the stockholders for 1873, with a view of restoring quiet among them. So general was their denial of any wrongdoing, that I will give the resolutions as published, and will then quote the opinion of the Majority Commission, in order that the reader may draw his own conclusions therefrom. The suit was compromised, of course, thus saving the Directors from exposure.

*Whereas*, Much has been said in the public press, upon the stump, in the legislative halls, and other places, in relation to the course of the President and Directors of this Company, in the construction and operation of its road, in which the plan adopted by them to secure a speedy completion thereof has been denounced as unjust and fraudulent towards the Government of the United States and the stockholders of the Company ; and



*Whereas*, Suits in equity have been brought by Samuel Brannan and the County of Placer, which suits are now pending in the courts of the State of California, on behalf of themselves and such other stockholders as may desire to unite with them, against the President and Board of Directors of this Company, charging them with an abuse of their powers in the making of alleged fraudulent contracts with Charles Crocker & Co., and the Contract and Finance Company, for the construction of the road of the Company, whereby, as alleged, the funds and means of the Company have been misapplied and wasted, to the prejudice of the Government of the United States and the stockholders of the Company, and asking that the President and Directors may be required to render an account of their doings in and about the construction of said road, and to account for and pay over to the Company all moneys so as aforesaid misapplied and wasted ; and

*Whereas*, In view of the matters aforesaid, we have considered it incumbent upon us, for our own security and the security of all others having any claims upon or against the Company, to inquire into these alleged abuses ; and

*Whereas*, We have investigated and now fully know and understand all the transactions of the President and Directors of the Company in and about the construction of said road, and the general management of the affairs of the Company, and are fully satisfied therewith ; and

*Whereas*, It is just to them that our opinion of their administration of the affairs of the Company should be formally and publicly expressed ; now, therefore,

*Resolved*, That we do hereby, with full knowledge of the matters hereinbefore referred to, approve and endorse the plan, measures, and contracts adopted and made by our President and Directors in relation to the construction of said road as affording, in our judgment, the only practicable and available mode, under the embarrassing and trying circumstances in which they were placed, and as being more expeditious and equally as economical as any other course that could have been adopted.

*Resolved*, further, That we approve the action of the President and Directors in guaranteeing the payment of sixteen hundred of the twenty-year six per cent. mortgage bonds for \$1,000 each, of the California Pacific Railroad Company, as being highly advantageous to the financial interests of the Company.

*Resolved*, further, That we wholly condemn and disapprove the course pursued by Samuel Brannan and the County of Placer in instituting the suits hereinbefore referred to.

The following is taken from the report of the Majority Commission, pages 73 and 74. It is impartial, and it is substantially so well supported by facts that it deserves to be noticed.

(1.) In 1870 suits were brought or threatened by Charles A. Lambard, Samuel Brannan, and others, against Stanford, Huntington, Hopkins, and Crocker, as owners of stock of the Central Pacific Railroad Company, alleging that those persons had been guilty of many violations of their duties as Directors, and that they had voted profitable contracts to themselves ; that by means of these contracts they had procured possession of substantially all of the assets of the Company remaining after the expenditure of the actual cost of construction. The Commission do not mean to intimate that all of the charges contained in these complaints are sustained by the evidence ; but it does appear that the four persons named did vote contracts to themselves, under which large profits were made and divided. The allegations contained in these complaints were such as would compel men of honor, if these allegations were false, to defend themselves at any cost. It appears from the evidence that all these suits were settled, and that the stock owned by the plaintiffs were bought at rates varying from \$400 a share to \$1,000 a share. (See evidence of Stanford, vol. 5, p. 2641 ; vol. 6, pp. 2775, 2779.)

The evidence on which the successful prosecution of such suits would necessarily depend was contained in the books of Crocker & Co. and of the Contract and Finance Company, because the actual cost of construction to these Companies, compared with the actual payments made by the Central Pacific Railroad Company, would disclose the profits divided between Stanford, Huntington, Hopkins, and Crocker. They, and they alone, were interested in the suppression of this evidence.

(2.) In 1873 the disclosures made by the examinations conducted by the Wilson Committee excited much public attention and indignation with reference to similar practices affecting the Union Pacific Railroad Company, through the intervention of the Credit Mobilier. Comparatively little attention was given by that Committee to the affairs of the Central Pacific Railroad Company. Mr. Huntington, however, was examined as a witness. He was examined as to the profits resulting from the construction of the Central Pacific Road. He described them as being confined to the

stock of the Company, and that the share received by him amounted to \$1,000,000 of this stock. (See report of the Wilson Committee, evidence of Huntington, p. 703.) This evidence was given more than two years after the completion of the Central Pacific Railroad, and Mr. Stanford has testified that each of these parties in interest received \$13,000,000 of the stock of the Company as his share of the profits. (See evidence of Stanford, vol. 5, pp. 2655 and 2656.)

Mr. Huntington must, therefore, have known, when he was testifying before the Wilson Committee, that his statement was not a true one.

The report made by the Wilson Committee concerning the Central Pacific Railroad was that they were unable to obtain the facts and figures they desired, because the persons and books to be examined were in California, and they had not at their command the time necessary for reaching them. The recommendations of this Committee in regard to the Union Pacific, which afterwards was enacted into the Act of March 3, 1873, directed the Attorney-General to prosecute the offending officers of the Union Pacific Railroad Company. This circumstance, and the danger that similar disclosures would lead to a similar result as to the officers of the Central Pacific, formed another strong inducement for the suppression of the books of Charles Crocker & Co., and of the Contract and Finance Company.

(3.) The books in question are identified by John Miller, William E. Brown, Daniel Z. Yost, and others as large journals and ledgers containing several hundred pages each, numbering, in all, from twelve to fifteen volumes, and their disappearance by accident or inadvertence is simply impossible. Mr. Yost testifies that the last he saw of them Hopkins was personally engaged in packing them in boxes. (See evidence of Yost, vol. 5, p. 2712.)

These books had been kept for several years by William E. Brown. He was succeeded in 1873 by John Miller, who acted as Secretary and bookkeeper of the Contract and Finance Company, after Mr. Brown ceased to act in 1873. Both Mr. Brown and Mr. Miller testified that before Miller took charge of the books, William E. Brown prepared a complete and new set, consisting of day book, journal, and ledger, into which set of books he personally transcribed all the balances of the unclosed accounts contained in the books of the Contract and Finance Company. These books have since been produced before the Commission, and the fact is as stated.

John Miller testified that he saw the books, both of the Contract and Finance Company and of Charles Crocker & Co., in their usual place in the rooms occupied by the Contract and Finance Company; that he was personally in charge of the room during the day on which they disappeared; that he left the room for a short time, at the lunch hour, leaving Mr. Brown there, and that on his return the books had disappeared. (See evidence of John Miller, vol. 5, p. 2879.) William E. Brown denies any knowledge of their whereabouts, or of the circumstances of their disappearance. (See vol. 5, p. 2990.) Mr. Crocker gives it as his opinion that the books were destroyed by Mark Hopkins, as having no value. (See evidence of Crocker, vol. 7, p. 3665.)

Putting all these facts together,—the existence of a strong motive on the part of Stanford, Huntington, Hopkins, and Crocker to suppress the books; the impossibility of accounting for their disappearance except in pursuance of the act or direction of one of these four persons; the evidence of Yost that he saw Hopkins engaged in packing the books in boxes; the evidence of John Miller of their sudden disappearance, and the statement of Mr. Crocker connecting their disappearance with Mark Hopkins,—it is impossible to avoid the conclusion that the suppression of these books has been intentional and willful.

After reading the evidence of the Commission, regarding the suppression of the important books, it requires but a spark of intelligence to reach a conclusion as to the guilt of the four Directors,—their attempt at self-acquittal by publishing the foregoing resolutions notwithstanding.

Before passing to subjects of the more recent mismanagement by Stanford & Co., I wish to satisfy the reader beyond a doubt as to the habit of these men, when occasion requires, of inserting resolutions of their own in the minutes of stockholders, and purporting to have come from them—the general stockholders; whereas they take no part in them whatever,—as in the case of the Brannan suit resolutions heretofore shown.

At the stockholders' meeting of July 11, 1876, the Directors again put a set of resolutions in the minutes (this time made necessary by another suit brought against them, called the Robinson suit), in which they denounced the stockholders as blackmailers, etc., and exonerated them-



selves in the former manner; this suit was also likewise compromised. The total number of shares voted was 539,601. On this occasion the Directors put large blocks of their stock in the names of employes of the Company, and which they voted for the resolutions. On the minute-book these names appear as the stockholders and are scattered through the bona-fide names; so that it is impossible for any one to discover the imposition unless these parties were known to him. Following I give some of the heaviest of such voters; excepting the Directors shown, nearly all of the others are personally known to me as employes who never at any time owned stock in the Company, as the books will show:

Leland Stanford, 43,848; D. D. Colton, 20,024; A. N. Towne, 6,197; John Corning, 7,000; C. H. Cummings, 10,829; Jerome Madden, 6,500; A. D. W. McCullough, 5,000; C. J. Torbert, 1,500; E. S. Miller, 7,000; S. T. Gage, 4,500; Robert Robinson, 10,010; Charles Crocker, 94,394; E. B. Crocker (C. Crocker trustee), 103,851; E. H. Pardee, 1,255; J. T. Tracy, 84,312; I. E. Gates, 300; R. J. Phillips, 1,200; Mark Hopkins, 53,106; Benj. Welch, 1,000; D. T. Phillips, 3,686; E. W. Hopkins, 2,500; W. E. Brown, 1,721; Moses Hopkins, 2,500; W. R. S. Foye, 4,514; A. R. Preece, 5,000; J. R. Watson, 1,500; C. P. Huntington, 9,606; Albert Gallatin, 4,505.

It cost the Central Pacific a round amount to compromise this suit, as besides purchasing the stock represented, the attorney for the stockholders, the late Mr. Cohen, who persuaded them to accept the terms of settlement, was taken into the Company's employ on a large salary; while several law firms assisting in the prosecution also had to be satisfied at heavy expense; some were permanently engaged by the Company.

The charter of the Southern Pacific Company of Kentucky was obtained by the aid of a special Act of the Legislature of that Commonwealth in 1884. The Directors have never had any interest or property of any kind within that State, so that their object in incorporating under its laws can be attributed to the purpose of preventing the Government and stockholders from inquiring into the future management of the Central Pacific and other roads, by leasing them to their private Company. Although the Company was formed for the purpose, the Directors leased the Central to it without the knowledge or consent of the stockholders; the Government, too, notwithstanding its large interest therein, was completely ignored. As is known to everybody, Stanford & Co. had vainly endeavored in the past to prevent the interference of Congress in their management of the Central, on the strength of its having obtained its charter from the State of California. They well knew that the stockholders would not consent to the leasing of their road to such a Company, so they carried out their purpose under cover.

William E. Brown, who figured so prominently in Contract and Finance Company affairs, was appointed by Stanford & Co. as President of the Southern Pacific Company, and H. C. Nash, private secretary to Mr. Stanford, as its Secretary. Shortly thereafter an agreement was secretly drawn up, couched in terms best calculated to deceive and quiet the non-consulted stockholder, and it was then entered into by the Directors at an ordinary Board meeting on January 14, 1885. It was signed by the above-named "officials" on behalf of the Southern Pacific Company, and by Mr. Stanford, as President of the Central Pacific, and E. H. Miller, Jr., the Secretary, thus placing the latter Company under private management for ninety-nine years.

Immediately after the execution of the lease, the two dummies of the Southern Pacific Company resigned, and Stanford and Miller were elected to the respective offices of President and Secretary, continuing to serve the



Central in the same capacities. How little the Directors cared for the rights of either the stockholders or the Government may be seen from the fact that they allowed over three years to elapse before acquainting the outside stockholders with the conditions of the lease, it having been first published in the annual report for the year ending December 31, 1887, issued in the spring of the following year. As it is entirely an agreement by the Directors, it is not worth publishing in full herewith, nor is it entitled to the serious consideration which it would otherwise receive. I will therefore allude to one or two clauses in order to show how deceptive and misleading it is. The following is assigned as the reason for the lease :

That whereas, part of the through business heretofore done by the Central Pacific Railroad Company's line from Ogden to the waters of the Pacific has been diverted by the Northern Pacific, Atlantic and Pacific, and Atchison, Topeka and Santa Fé railroads ; and

*Whereas*, The Union Pacific Railroad Company has secured the control of the road known as the Oregon Short Line, and thereby secured an outlet to the Pacific other than over the Central Pacific ; and

*Whereas*, It now appears that the through business hitherto done by the Central Pacific Railroad will thereby be further diverted, and that it is not only to the best interest of, but absolutely necessary that the Central Pacific Railroad Company, in order to maintain itself against these diversions, should be operated in connection with a friendly through line to the waters of the Atlantic ; and

*Whereas*, The said Southern Pacific Company has a line of railroad under its control for a period of ninety-nine years, extending continuously from the Pacific Ocean to the Atlantic Ocean ; and

*Whereas*, The lines of each Company are doing a large local traffic, and it is important to both that the same should be conducted in harmony ; . . .

The "friendly through line" referred to, although owned and conducted by Stanford & Co. for some time past, had just been leased to the Southern Pacific Company a month previous to the leasing of the Central, the latter's commencing from April 1, 1885, while all of the other roads' lease being dated March 1. Therefore, the excuse of operating the Central with a friendly through line is simply bosh.

The other clause to which I wish to direct attention is :

The said Southern Pacific Company agrees to and with the said Central Pacific Railroad Company that it will maintain and keep the property hereby leased in good order, condition, and repair ; operate, maintain, add to, and better the same at its own expense ; pay all taxes legally assessed against or levied thereon, and will at the termination of this lease return the same to the said Central Pacific Railroad Company or to its successors or assigns (with additions and betterments), in as good condition and repair as the same was at the date hereof.

If the Government imagines that this condition in the lease is being fulfilled, or that the Central will receive even its own property back, it is badly deceived. Any one who has passed over the various lines under lease will notice improvements going on everywhere excepting on the lines of the Central, and this simply because the Directors anticipate that Congress will take the road, or what is left, in lieu of the debt. Furthermore, let not the stockholder imagine that the construction which the Directors put upon the above paragraph is in the least advantageous to their road. In other words, Stanford & Co. attend to the betterments and additions either through the Southern Pacific Company or the Pacific Improvement Company, and various items of expense are improperly included in the account known as "Betterments and Additions." These, with any valuation which Stanford & Co. place upon them, are charged up against the Central. In fact, the heavier the road's expenses are shown to be, the more apt are the stockholders to remain contented under lease and receive the charitable donation from its lessee as guaranteed rental. The fact seems to be lost

sight of, that under favorable management the Central could not only earn this rental guaranteed by the Southern Pacific Company, but a great deal more; and the mere fact that Stanford & Co. agree to make good any deficit there may be, is proof in itself that they receive the profit through another channel, and at the expense of the Central. Let us glance at the notice which the Directors give to the stockholders in the annual report for 1888:

The net profit was less than the guaranteed rental by the amount in 1887, of \$113,-266.69, and in 1888, of \$397,170.16. The Southern Pacific Company has thus been required to make up in these two years a deficit of \$510,436.85. The chief cause of the deficit shown for 1888 was the large expenditures made for betterments and additions. . . .

Whatever figure, therefore, the Directors succeed in reducing the net earnings to, below the guaranteed income, either by charges to "Betterments and Additions," diverting traffic, or otherwise, it seemingly places the stockholder under obligations to the Southern Pacific Company to that amount; and the net earnings will continue to show a falling off, pending the arrangement by Congress for the future payment of the debt.

The second transcontinental line also under lease was unquestionably built and acquired through the profits of the Central Pacific, and both have a common entrance into San Francisco, while the branch lines or feeders in California, which used to supply the Central with business exclusively, now contribute to both lines. Does any one suppose that the latter road, heavily burdened with the Government's claim, and required by the Thurman Act to pay over to the Government a percentage of its earnings, is given anything like the proportion of traffic it would otherwise receive under proper management? This is best answered by pointing to the increase of the debt, which the above Act was expected to wipe out entirely. The bill was passed in 1878, and the earnings at the time warranted Congress in assuming that a fixed annual percentage thereof would amply provide for the payment of the debt at maturity. Soon thereafter the Directors began to divert the business to its own line, and the Union Pacific, unable to stand the large falling off in the traffic heretofore handled by the Central, retaliated by constructing what is called the Oregon Short Line. The effect of both these deals on the Central Pacific is not necessary to point out.

When, in 1878, it became apparent that the Government meant to secure the payment of the debt when due, the Directors offered to make its own provisions therefor. Congress might have known that these men would defeat any plans it would make upon its refusal to leave the matter to them and should have appointed a representative in the Central Pacific Board, instead of trusting to them. In the annual report for 1888, page 107, Mr. Stanford says:

The provision for the payment of the debt to the United States has, by the Thurman Act, been taken from the Company's hands and assumed by the Government. This has been clearly set before Congress, and the recent consideration by that body of a final adjustment of the debt indicates that it recognizes the importance of an early settlement. The longer the delay in this matter, the longer are the current payments kept below an adequate amount. As the Government owes the present condition of this debt to the evil results of its own management of the matter, and as an early settlement cannot be enforced, but must be in the nature of a compromise, it is believed that a measure will be adopted which will at once recognize the rights of the Company and provide for a payment not beyond the earning capacity of the aided road. Owing to the continued aggressiveness of other lines, and the reduction of rates, it would not, in the opinion of your Directors, be prudent to accept any proposition requiring a larger annual payment than \$1,000,000.

The evident object of Mr. Stanford is to draw the attention of both



stockholder and Government from the real issue, and the one he most fears—of collecting the debt when due. To one, he declares his unwillingness to pay a larger amount than \$1,000,000, thus preparing the stockholder for a possible extension to fifty years of a debt which himself and associates inflicted. To the other, he assumes a different front and keeps alluding to his so-called “equities,” which the Investigation Commission state do not exist, but claim that the Government received no benefit resulting from the construction of the road, at the expense of the Directors. This seems to be the verdict of all who are familiar with the past situation; so that Mr. Stanford merely wastes time when assuming that the Government will act upon either course. To insist on the payment of the debt when due would demonstrate the real value of the road to the Directors, and doubtless a method would be found to comply with the demand. When the causes which led to the failure of the Thurman Bill are considered, Mr. Stanford should be the last man to ask the present and future stockholders to fulfill his promise to the Government, or to dictate to the Government the terms of settlement. Both propositions are as unreasonable as was his attempt to collect a bill amounting to about \$100,000 against the United States,—representing the total expenses alleged to have been incurred by the visit of the Investigation Committee to San Francisco. The bill was gotten up in the Secretary's office when it was learned that the Commission reported unfavorably, and included charges for everything imaginable,—not even excepting a high valuation of the services of the Company's officers, for time spent in the company of the Commission. It caused much merriment among those having it in charge, and altogether was regarded as a huge joke. Of course the Government refused payment.

The most important step which Congress should first take is that of cancelling the Central's lease to the Southern Pacific Company of Kentucky. In addition to the fact that it was a lease by the Directors, there was not even a full Board present at the meeting, while four out of the six present were dummies of Stanford & Co., holding but a few shares of stock necessary to qualify them to serve as Directors. As stated before, the President and Secretary signing the lease on behalf of the Southern Pacific Company were also dummies; indeed, it was a lease by the Directors to themselves. There was no mention made in the published notice of the Central Pacific stockholders' annual meeting following the action of the Board, that business of unusual importance was to come up for consideration. Such stockholders' meeting took place in April, 1885, closely following the aforesaid Directors' meeting. For these two reasons, out of the entire 680,000 shares of stock outstanding there were but 358,895 shares represented at the meeting, or a little over one-half of the total issue. Nearly all such stock belonged to Stanford & Co., and was put in the names of clerks in Mr. Huntington's New York office. Of these, the following may be cited: 20,096 shares was voted in the name of I. E. Gates; S. A. Blend, 16,320 shares; E. H. Pardee, 14,950 shares; J. J. Coyne, 40,190 shares; J. B. Hawes, 28,210 shares; R. J. Phillips, 10,905 shares; D. A. Rose, 40,640 shares; besides many others of smaller amounts. Leland Stanford voted 5,029 shares; C. P. Huntington only 300 shares, and Mrs. Hopkins (representing the Hopkins estate) but 336 shares.

The re-marking of the rolling-stock was at once begun, and Messrs. Stanford and Miller were “elected” by the Southern Pacific Company to the offices of President and Secretary respectively, vice the private book-keeper and private secretary resigned. The whole thing was nothing less than a bold design originating entirely with Stanford & Co. to suit their



own interests, and in which the Central Pacific stockholders at large took no part whatever.

For some time after the Government had learned of the lease it refused to recognize it; but through liberally advertising the Southern Pacific Company as lessee of the Central, together with the changes occurring in the administration at Washington, etc., soon enabled Stanford & Co. to force the new Company upon the Government's notice, and secured it the privilege of transacting the business of the Central Pacific.

Prior to the lease the Central Pacific held in its own name the leases of several valuable feeders in California, but which, on October 21, 1886, was cancelled by the Directors and new leases made directly to the Southern Pacific Company. Even this important act was not first submitted for consideration of the stockholders; in fact it was not until April, 1888,—stockholders' annual meeting,—that it was shuffled through as having been approved by them. The method resorted to on this occasion was much the same as that employed in 1885. The simplicity of the resolution voted on may be seen :

*Whereas*, This Company, by order of its Board of Directors, duly made and entered of record on the 21st day of October, 1886, did execute an agreement in the words and figures following, to wit :

(Follows agreement between the C. P. R. R. Co. and S. P. Co. cancelling leases of the Cal. Pac. R. R., Am. Br. R. R., Berk. Br. R. R., S. P. & T. R. R., and Nor. Ry.)

Now, therefore, we, the stockholders of the Central Pacific Railroad Company, do hereby approve, ratify, and confirm the said agreement and all the covenants, provisions, and stipulations therein contained, and all and singular the Acts of the Board of Directors and officers of this Company done and performed in relation thereto.

Messrs. Stanford, Huntington, and Crocker absented themselves from the meeting, and their stock was voted in the names of clerks, as before. A proxy representing over 77,000 shares had in the meantime been secured from a European stockholder and was voted at the meeting. This fact made it unnecessary for Stanford & Co. to cast the full number of shares they control, so they voted much less than usual. Their motive in so doing will be better appreciated when I say that the agreement between the Southern Pacific Company and the Pacific Improvement Company to extend the line of the California and Oregon Division of the Central (presently noted) was also submitted for approval at this meeting.

The Government will understand the significance attached to the cancellation of the above leases should the Directors wish to reject its terms of settlement. With the facts herewith given, however, Congress will have no trouble in restoring the leases to the Central, should it be decided to take the management of the road out of the Directors' hands. With control of these lines the Central would be wholly independent and prove very profitable to any one to operate. The total earnings of the aided portion of the Central alone (860.66 miles), from November 6, 1869, to June 30, 1878,

Amounted to.....	\$85,878,514.83
Total expenses, including taxes, to.....	48,449,905.90
<hr/>	
Leaving a total net earnings of.....	\$37,428,608.93

The fact that Stanford & Co. acquired possession of these branch lines through the Government's aid and the profits of the Central, as above,—which should have been applied towards extinguishing the debt,—makes the Government, or the Central Pacific, if it has to pay the loan out of its future earnings, all the more entitled to the feeders. In any event, the Government will shortly be called upon to redeem its liberal issue of

bonds, requiring an enormous outlay of the public money; while the present security is but a second lien on the property, and scant property at that. In contrast to this I may remind the reader that the combined wealth of the four principal Directors is to-day estimated at about \$250,000,000. They have never been engaged in any business besides managing railroads, so that their colossal fortunes were made directly out of the Central Pacific.

The Directors made the Central pay roundly for the leases while it held them, it is true, but the *control* of them is the vital point. As the Majority Commission state, page 80, in many instances the rental which the Central had to pay was fixed by the Directors, at a figure which permitted the declaration of dividends on the stock of such leased road, in addition to the payment of the interest on its bonds.

Should Congress not cancel the lease to the Southern Pacific Company, and permit the present managers to operate the Central through that Company, the Directors might at any future time decline to operate the road and turn it over to the Government. In all probability within the next two years other transcontinental lines will have secured independent entrance into California, and over more feasible routes since discovered, and less expensive to operate than the Central. The fierce competition following would give the Directors all they could do to supply their own Southern Pacific line with business, and they would then abandon the Central Pacific, retaining the feeders. Under such circumstances no one would care to operate the road, with its heavy debt still unpaid, and the Government would be forced to hold it as a monument to one of the worst swindles ever accomplished against it. The irresponsible methods which Stanford & Co. employed in consummating the leases, together with the releases they issue to themselves (presently shown), are calculated to protect their estates from attachment, and their heirs and successors in interest can defy collection of the debt. Since the lease, the meetings of the Central Pacific Directors have not been regular, at least, if held, their proceedings are not recorded in the book kept for that purpose. The minutes show intervals of months between dates of meeting, and yet scarcely a week passes without important matters coming up and are acted upon, in which the Central is directly concerned. This is contrary to the Company's By-laws, Section 5 of which provides that regular weekly meetings shall be held by the Directors; and they were so held prior to the lease. Now, however, its affairs are managed by the Southern Pacific Company of Kentucky, and there is little to indicate how it fares at its hands.

When the Directors fixed the amount of guaranteed rental to be allowed the Central under lease, the Southern Pacific Company had assumed a "floating debt" against the road, and to which the Directors intended applying such rental,—just as the United States is at present applying the amounts allowed for transportation on non-aided lines, to which the Directors so vigorously object. In the former case, however, the annual rental was all that the stockholders could look to for dividends, but the Directors had hoped to withhold such until the above floating debt was satisfied, amounting to \$12,873,945.61. They had actually applied two or three of such annual rentals before the stockholders in Europe realized their intention. So loud did the protests become, that the plan was abandoned, and the money was thenceforth paid out in regular semi-annual dividends of one per cent. The Directors were not long in finding another way of collecting the debt from the Central, but set to work mortgaging its property and issued bonds to the Southern Pacific

Company to satisfy the claim. In the following annual report to the stockholders (1887), Mr. Stanford informs the stockholders, in his usual smooth language, how he managed to get even, and at the same time meet their demand. He says:

On January 1, 1885, just prior to the lease to the Southern Pacific Company, there was a net floating debt of \$12,873,945.61. This has been reduced each year, till, on December 31, 1887, the floating debt was wiped out and there remained a surplus of \$1,970,194.65. This result has been chiefly accomplished by the sale of supplies and materials on hand to the Southern Pacific Company at the commencement of the lease, by the non-payment of dividends for the period, and by the issue of bonds.

The floating debt now being provided for, and there being no other present obstacle to the payment of dividends, your Board of Directors has declared a dividend (No. 18) of one per cent., or \$1.00 per share, payable on the capital stock of the Company, on and after February 1, 1888.

It would be interesting to know just how much of the property belonging to the Central, on which the Government had a lien, was included in this "sale of supplies and material on hand to the Southern Pacific Company," and the amount paid therefor, if any. There is not much doubt that such property has been put beyond reach of the Government, but a complete inventory would have to be taken by it in order to determine to what extent it has been practised. Of course Stanford & Co. hardly expect this step; but should it be done, and the Government finds that its security has greatly diminished, the Directors will doubtless attribute it to "deterioration," "worn out and not renewed," or "replaced by property purchased and owned by the Southern Pacific Company." These are common, every-day terms used by the officers of the Company when accounting for the disappearance of rolling-stock or other property belonging to a particular road, the Central included.

There is a provision in the lease providing that the Southern Pacific Company may change the terms thereof, in the event that the action taken by the Government regarding annual payments to it towards the debt should prove unfavorable. In announcing the decision to declare dividends as above, it will be noticed that the stockholders are informed that there are *at present* no obstacles. Since the Directors find that they are now expected to pay out the guaranteed rental in regular dividends, they will on the slightest pretense change the terms in the lease, either so as to reduce the rental, or specify a "percentage" to be paid from the yearly net earnings; and in the latter event they will have no trouble in regulating the net earnings, any more than when they defeated the purpose of the Thurman Act. Had the stockholders known at the time how Stanford & Co. effected the lease, it is doubtful if they would have contented themselves with such a paltry dividend in the form of a donation; for many of the stockholders paid as high as \$70 for their stock per share.

In case there is any one who still thinks that Stanford & Co. are managing the roads under their control in the interest of the stockholders, I propose to furnish conclusive evidence to the contrary, and which ought to discourage even the most hopeful.

The Morgan Louisiana and Texas Railroad and Steamship Line is also operated by the Southern Pacific Company, under the lease of March 1, 1885. When preparing statements for publication in the annual report of the Southern Pacific Company to the stockholders for the year 1888, of the financial condition of the roads operated, the Secretary of the Southern Pacific Company wrote the following letter to Mr. Crocker, which explains itself:



SAN FRANCISCO, *October 10, 1888.*COL. C. F. CROCKER, *Vice-President S. P. Co.*

DEAR SIR : The Southern Pacific Company is indebted to the Morgan's La. & Texas R. R. & S. S. Co. to the amount of about \$1,000,000. As there are other assets available also of the Morgan Company, which more than offset its floating debt, this \$1,000,000, if collected, would be available as a dividend. If the capital stock of the Morgan Company amounts to \$5,000,000, it would make a dividend of 20 per cent. This balance represents accumulations of the Morgan Company up to date, which have not been used. Under the lease the rental which it is currently receiving would probably be about offset by the new equipment and construction charges, which, as betterments and additions, are chargeable to the railroad Company.

In view of this present surplus, which I suppose it will be necessary to show in the next annual report of the Company, I would call your attention to the outstanding stock of the Morgan Company, the disposition of the capital, so far as I have any information, being as follows :

	SHARES.
Owned by Southern Pacific Company.....	40,627
“ “ Morgan Company .....	60
Other ownership.....	9,313
Total.....	50,000

(If the outside ownership is represented by this 9,313 shares, those stockholders could reasonably demand a dividend upon an exhibit of the Company's affairs.)

The above is for your information.

(Signed) G. L. LANSING, *Sec'y and Contr.*

The last paragraph, shown in parenthesis, was written and afterwards stricken out, being understood as a matter of course. Notwithstanding that the Directors themselves are heavy stockholders in the lines they operate, they would rather keep a surplus and loan it to the Southern Pacific Company for their own use. Before this property was sold to the Southern Development Company (Stanford & Co.), regular dividends were declared on its stock, which had a very high market value. This may be inferred from the fact that Stanford & Co., when turning over the stock to the Southern Pacific Company, exchanged it at the rate of \$450 per share ; in other words, they issued to themselves four and one-half shares of Southern Pacific Company stock, having a par value of \$100, for one share of the Morgan. This information is of interest to the outside stockholders in the Morgan Company, as it entitles them to a similar rate of exchange, a fact worth remembering should their stock, through the Southern Pacific Company's management of the road, cease to be of value. There had been no dividends declared on the stock since Stanford & Co. first took possession, up to the date of the above letter, the 20 per cent. referred to covering a period of over four years. The Southern Pacific Company owned 40,000 out of the 50,000 shares outstanding, and had the use of the road's profits during all that time. One could hardly imagine that the Directors would begrudge paying it out in dividends at the last moment ; yet the General Manager of the Company's Atlantic System, in which system the Morgan lines are included, referring to the proposed dividend, telegraphed in cipher from New Orleans on December 27, 1888, that "the attorneys here say it will not be necessary to advertise it."

If these Directors are so reluctant to declare dividends on stock, when there is a legitimate surplus on hand, surely the Government need not expect them to faithfully live up to any future agreement regarding the payment of its claim, unless it is clearly to their interest to do so.

When Stanford & Co. incorporated the Southern Pacific Company, its capital stock authorized was fixed at \$1,000,000. It had no property of any kind, it being given out that its purpose was merely to lease and operate roads. The main object of its promoters, however, was to secure to

the Southern Pacific Company the valuable stock of the roads leased, by exchanging its own therefor. For this purpose the Directors soon after increased the authorized issue from \$1,000,000 to \$100,000,000, it still having little or no property of its own. They now began a wholesale exchange of the stock, which soon exhausted the supply. Some plausible excuse had to be invented for still further increasing the capital stock, so the Directors consolidated several branch lines in California. On the strength of this they again increased the capital stock from \$100,000,000 to \$150,000,000; but it was not for the purpose of "acquiring the proprietorship of additional lines," as given out by Stanford & Co., *for they already possessed the roads they referred to, and they were then being operated under lease.*

President Stanford touches upon the matter very lightly in the annual report to the stockholders for 1888. He says:

. . . The capital stock fixed by the Charter was \$1,000,000, with power to increase the amount from time to time, as might be determined by the Board of Directors with the approval of at least two-thirds in interest of the stockholders. In 1884 the original amount of \$1,000,000 was paid in cash and the authorized capital was increased to \$100,000,000. With the issue of \$87,076,200 of this new stock the greater part of the capital stock was acquired in the proprietary lines included in the Omnibus lease. For the purpose of acquiring the proprietorship of additional lines the authorized capital was fixed in 1888 at \$150,000,000.

In the face of this I will show a few of the names of parties holding that Company's stock, and voted at the stockholders' meeting in 1889:

Western Development Company, 80,171; Southern Development Company, 153,-109; Pacific Improvement Company, 140,081; Leland Stanford, 157,389; C. Crocker (estate), 136,879; M. F. S. Searles (Hopkins), 134,904.

These are among the largest holders; there were 1,059,387 shares cast and controlled by the principals, under names of employés in many instances.

An officer of the Southern Pacific Company called the attention of the Investigation Commission to the fact that the Directors were paid a smaller salary than was paid by any other Company of similar importance in the United States. This was as an argument that their management was an economical one. I will go further and state that Stanford & Co. pay several of the Company's officers more than twice the amount of salary they allow themselves. And why is this? From my personal knowledge I can say that there is not one of these high-salaried officers, nor an individual in the employ of the Company, who would seriously oppose any transaction which they knew to be in the interest of Stanford & Co., though manifestly injurious to the stockholders. They are wholly governed by these men and receive their orders from them. Stanford & Co. are the exclusive owners of the several private corporations which exist and feast upon the profits of the roads under control; and in the possession of the Pacific Improvement, Western Development, and Southern Development Companies are the funds belonging to the various railroads, including bonds and other valuable assets.

It is the custom of the Directors when they wish to get possession of any surplus belonging to one of the roads, to appoint themselves a "Committee" to "invest" such surplus, and then invariably loan it to the Pacific Improvement Company. For instance: at the Central Pacific Directors' meeting on August 26, 1886, a Sinking Fund Committee was appointed "to loan or invest the money standing in the various sinking funds of the Company." At their meeting, held September 30, the Committee reported as follows:

SAN FRANCISCO, Sept. 30, 1886.

TO THE BOARD OF DIRECTORS, *Central Pacific R. R. Co.*

GENTLEMEN : We, the undersigned Committee, appointed for the purpose of investing the money in the sinking funds of this Company, respectfully report as follows : No suitable investment presenting itself at present, we have, pursuant to the resolution of your Board, dated August 26, 1886, loaned the amount in the sinking funds, namely, \$3,032,410.33, to the Pacific Improvement Company on thirty days' call, at three per cent., taking as collateral G. H. & S. A. first mortgage five per cent. bonds at ninety cents. Yours respectfully,

TIMOTHY HOPKINS,  
C. F. CROCKER,  
W. V. HUNTINGTON.

It would require but a slight idea of the general custom of the Directors to understand that this was a cut-and-dried affair, and that no other investment was even thought of. Nor was the money ever returned to the Central Pacific, but, instead, a "proposition" was received by the Directors, at their meeting on May 2, 1887, from the Pacific Improvement Company, to pay its above note in Central Pacific Fifty-year Bonds, dated October 1, 1886. Of course the proposition was accepted and the bonds placed in the sinking funds. They had only lately been issued to the Pacific Improvement Company in part payment on its contract with the Central, for the construction of the California and Oregon road northward to Oregon. What right have Stanford & Co. to use accumulated funds of a road to privately redeem their own bonds held by the Pacific Improvement Company? Why not purchase therewith the outstanding bonds of the Company, and for which the sinking funds were established? The Trustees are appointed by Stanford & Co.; the active one of the two so appointed is invariably an employé, and, of course, takes his instructions from the Directors; the other is usually a figure-head chosen on account of his prominence, and frequently a resident of the East. The Central has always had to contend with just such transactions as these, and in almost every case is the victim: the reader has but to recall the loans to the Contract and Finance Company, aggregating \$5,700,000, which it failed to return.

Since the above transaction with the Pacific Improvement Company, the Directors again relieved the Central Pacific of the accumulations in the sinking funds, this time by purchasing therewith another lot of these Central Pacific Fifty-year Bonds, issuing one thousand of them for that purpose. They were also placed to the credit of the sinking funds. The idea of the Central Pacific thus purchasing a series of its own bonds with its profits and placed to its own credit, bearing interest against itself at the rate of six per cent., may seem a proper transaction, but only to the Directors who get the money.

The Southern Pacific Company, as lessee, contracted with the Pacific Improvement Company for the latter to build a second track from Oakland to Port Costa, Cal., a distance of about twenty-six miles. Aside from the material supplied, the work necessary amounted to but little more than laying the rails over a course already in use, yet the Pacific Improvement Company was allowed \$25,000 per mile, or a total cost of \$650,000 for the twenty-six miles.

The Directors are almost as unmerciful to-day towards the interest of the Central Pacific, when fixing the charges of the Pacific Improvement Company for work done, as in the days of the Contract and Finance Company. Their terms in the contract for the extension of the California and Oregon line were simply outrageous. The severe criticisms of the Majority Commission regarding the extortionate charges will suffice to give an idea of its magnitude.



The actual cash value then paid to the Pacific Improvement Company for the construction from Delta to the State line, and for the equipment, was:

In stock.....	\$3,840,000
In bonds.....	4,500,000
Total.....	\$8,340,000

The books of the Pacific Improvement Company, showing the actual cost of this construction and of the equipment, were examined by Mr. Stevens, and this cost, exclusive of the unfinished work, which Mr. Douty (the Secretary of the Pacific Improvement Company) testified would not exceed the \$317,000 of bonds which had been retained, was \$3,138,609.32. (See evidence of Stevens, vol. 6, p. 3528.) The accuracy of the conclusions reached by Mr. Stevens was conceded by the counsel for the Central Pacific road. (See Haymnd's statement, vol. 6, p. 3534.)

In the statement of cost of construction contained in the table at page 3531, the retained \$317,000 bonds have been added to the above figure, making the total cost of the completed road and equipment \$3,505,609.32. As compensation for this expenditure, *Stanford, Huntington, and Crocker have voted to themselves stock and bonds of the value, as above stated, of \$8,340,000. And this extraordinary transaction is being consummated to-day in the face of this investigation and in violation of every duty which these Directors owe to the stockholders of that Company and to the Government as its chief creditor.*

It has been remarked before that the conclusion reached in the case of the United States against the Union Pacific Railroad Company, to recover misappropriated assets from the Directors, that no such suit could be sustained until after the maturity of the debt, was unfortunate. The application of this principle to the transaction now under discussion presents the results of this decision with peculiar force.

The United States *cannot* sue, because the debt is not due. The corporation *will not* sue, because it is controlled by the wrong-doers. The stockholders *dare not* sue, because, under the laws of California, they are personally liable for the obligations of the Company. (See Bergin's statement, vol. 5, p. 2670.) Report Majority Commission, pp. 79 and 80.

I can add nothing to the above, except to say that as long as Stanford & Co. have the power of loaning money to themselves through their private firms, contracting with themselves on behalf of the roads, etc., just so long will they be found willing to manage the various properties, and for a less salary than is paid to Directors of other railroads, who serve the stockholders for the salary alone.

If there is anything lacking to prove the total unfitness of Stanford & Co. to manage the roads in the interest of the stockholders, and that they are undeserving of the further confidence of the Government, I can furnish such proof by showing a most extraordinary measure of self-protection taken by these principal Directors against liability for their wrongdoings. Furthermore, I call upon any one to name a road in the country whose stockholders ever voted to their Directors resolutions in the form of annual releases; and there is not a bona fide stockholder of the Central Pacific, excepting the above principals, who is even aware of the practice, much less favoring it.

The following form of release is the same which is "adopted" annually at the meeting of stockholders of both the Central Pacific and Southern Pacific Companies, and on at least one occasion they were even passed at *ordinary Board meetings* of the Directors of those two Companies,—on October 7 and 8 respectively, when they voted the contract for the extension of the California and Oregon line to the Pacific Improvement Company:

*Whereas*, The President of this Company, Leland Stanford; the First Vice-President of this Company, Collis P. Huntington; the Second Vice-President of this Company, Charles F. Crocker, and the Treasurer of this Company, Timothy Hopkins, have done various acts and things in the interest of and for the benefit of this Company, and have made various payments of money, for which vouchers have not been received from the parties to whom payments were made; and

*Whereas*, The nature of such acts and things, and the amount of such payments have been exhibited and fully made known and explained to us ; now, therefore,

*Resolved*, That the stockholders of this Company do hereby ratify and approve all such acts and doings and payments made by said persons, and do hereby expressly waive the production or filing of vouchers therefor ; and the President or a Vice-President and the Secretary of this Company be and they are hereby authorized and directed to execute full and complete releases, under the seal of the Company, to said Stanford, Huntington, Crocker, and Hopkins, and deliver the same to the respective parties ; which releases shall be in substantially the following form, to wit :

*Whereas*, ..... has been and is the ..... of this, the Central Pacific Railroad Company, and has, under and by virtue of the power and authority conferred upon him as such ..... done certain acts and performed certain services for said Company, both in the City and County of San Francisco, State of California, and in the City of New York and elsewhere, and has collected and received certain moneys of the Company, and has paid, laid out, and expended certain moneys for the uses and purposes and for the benefit of said Company, and in its name, place, and stead, and on its behalf, has made and endorsed its checks, notes, drafts, and bills of exchange, and has executed and delivered contracts, agreements, and instruments of various kinds, has borrowed money for said Company, and has pledged and hypothecated stock, bonds, and other securities of the Company as collateral for money borrowed, has made purchases for said Company, has paid, laid out, and expended moneys for interest, freight, loans, insurance, commissions, purchases, and for other obligations and purposes of said Company, and has employed clerks, agents, counsel, attorneys, and others, in and about the business of the Company, in its service and for its benefit, and has paid salaries, wages, expenses, and compensation to persons so employed, and has compromised, settled, and adjusted claims due and owing to and by said Company, and has done and performed various acts and things, and has attended to and managed generally the affairs and business of said Company in the State of New York and in the State of California and elsewhere, and has, from time to time, rendered accounts and reported his acts and duties to said Company, which said accounts and reports have been examined, audited, found correct, and approved by said Company, about and of all which this Company has full advice and knowledge ;

NOW, THEREFORE, the said CENTRAL PACIFIC RAILROAD COMPANY, with a full knowledge of all of the facts and circumstances relating to said transactions, and each of them, in consideration of the premises and of the payments of moneys for the benefit of said Company by the said ..... and for and in consideration of the further sum of one dollar, lawful money of the United States of America, to it in hand paid by said ....., hath ratified, confirmed, and adopted, and doth hereby ratify, confirm, and adopt all the acts and deeds of said ....., in the premises as its own acts and deeds, and hath remised, released, and forever discharged, and by these presents for itself and its successors, doth remise, release, and forever discharge the said ....., his heirs, executors, and administrators of and from all manner of action and actions, cause of action and causes of action, suits, debts, dues, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, executions, claims, and demands whatsoever in law or in equity which against him the said Company ever had, now hath, or which it or its successors shall, can, or may have, for, upon, or by reason of any matter, acts, or things whatsoever done in and about the premises from the beginning of the world to the date of these premises, and particularly for all acts done by him as .... of said Company or individually or otherwise.

IN WITNESS WHEREOF, the said CENTRAL PACIFIC RAILROAD COMPANY hath caused these presents to be signed in its name by its .... Vice-President, and its corporate seal attested by its Secretary, to be hereunto affixed this ..... day of ....., 188 .

The wording of such an unconditional release as the above, it need hardly be said, is neither the language nor the will of the legitimate stockholder. It was gotten up in the Company's law department in San Francisco, and because the learned attorneys well understand that Stanford & Co. are constantly transgressing on the rights of the stockholders, and that the abuse of the powers of their offices renders such a precaution advisable. The statement therein that explanations are made, and their doings explained, even to the dummy stockholders present at the meeting, is likewise absolutely false. The stockholders of the Central Pacific are scattered throughout the Eastern States and Europe, and are



totally ignorant of the proceedings of their Directors at the annual meetings. The powers which Stanford & Co. exercise could not be more complete if they were the sole owners of the property: in fact, having built the Central through the Government's credit, and thereby acquired control of other roads, they now regard themselves as owners of them all, and treat the rights and interests of others as secondary to their own. They would rather give up a road than submit to any restrictions being placed upon their selfish policy, for from that moment the road would cease to be profitable to them. Let a stockholder or the Government attempt to locate the surplus earnings of a line, and show in the annual report, and they will doubtless find that either the Pacific Improvement Company or the Southern Pacific Company has borrowed it, and perhaps paid it back in bonds which formerly were owned by Stanford & Co. The Investigation Commission, on coming across one of the above releases spread in full on the Central's minutes, could not help expressing astonishment, and they tried to learn the object,—if the parties to whom they were issued were afraid to answer for their acts. Only the principal Directors are favored with them, the others serve them,—not the stockholders. This may be clearly seen by the following brief reference to the parties serving in the capacity of subordinate Directors:

The Southern Pacific Company's Board is composed of eleven Directors. Besides the principals, there are the following: F. S. Douty, who is also Secretary of the Pacific Improvement Company and other private concerns owned by Stanford & Co.; S. T. Gage, recently appointed by Stanford as assistant to the President; William E. Brown, of Contract and Finance Company fame, etc., also employed as the private bookkeeper for Stanford & Co.; Ariel Lathrop, brother-in-law to Stanford; W. V. Huntington, nephew of C. P. Huntington; E. H. Miller, Jr., the Secretary and a Director of the Central; A. N. Towne, General Manager and third Vice-President, and holding similar positions in the Central; also T. E. Stillman, of New York, who lately succeeded Timothy Hopkins as a Director, representing the Hopkins estate; he holds ten shares in his name to qualify him as such.

In the Central Pacific Board there are seven Directors. In addition to Stanford & Co., we have A. N. Towne, recently instated, also nominally serving as third Vice-President; it may be remarked that in this capacity he is not allowed a release for his acts, having no interest in the road save the positions he fills by the grace of Stanford & Co.; E. H. Miller, Jr., also Secretary of the Company; he is better acquainted with the acts of his superiors than any one else, having been associated with them almost from their start, and served continuously as a Director and Secretary of the Company: as the latter, he had the custody of the "missing" contract with the Contract and Finance Company, the Record of Corporation Debts, and other important books and documents destroyed. The seventh Director, Mr. C. E. Bretherton, resides in England, and was recently appointed to the place at the instance of Mr. Huntington as a compromise with the dissatisfied stockholders in Europe, and who protested against using the Central's guaranteed rental towards reducing the floating debt. Mr. Bretherton takes no part in the proceedings of the home Directors, and, excepting to occasionally voting an objection to the adoption of injurious measures, he is powerless to protect the Central. His chief aim is to see that the annual report is sufficiently elaborate in detail to satisfy the stockholders he represents; to him is also due the credit of requiring the payment of the Central's rental to the stockholders in regular dividends.



Having shown the material which surrounds Stanford & Co. in either Board, and which is supposed to act in the interest of all stockholders, I now invite attention to the copies of correspondence given herewith. There is a reference in one of them to the missing Contract and Finance Company's books, indicating that the writer, the Secretary of the Central Pacific, knows something of their whereabouts. Congress will remember that no one could be found who would testify before the late Commission regarding the destruction of these books, while all professed ignorance as to their hiding-place. As to the correspondence herewith, it will be observed that it was written shortly after the passage of the bill by Congress, authorizing the appointment of the Investigation Commission, and was doubtless instigated by it.

NEW YORK, *January 10, 1887.*

FRIEND MILLER: As you probably know, the account known as "S. H. H. & C." shows exceedingly large figures, which we propose now to cut down, since there are no assets to represent any such figures as these, which seem to show large amounts to be distributed. I don't understand this account myself, do not know much about it, in fact, and Mr. Crocker does not know any more. I know it is asking considerable, but I would like to have you look over these accounts, as-e's, and everything connected therewith so as to verify them, and then send me a statement. I have great confidence, as you know, in Wm. E. Brown; but all men are liable to mistakes and I would like to have you take this matter up and attend to it, as we propose to charge off to profit and loss enough to bring the figures down to the actual assets on hand. It is possible Willard can help you in this matter, if you call on him to do so. Mr. Brown will of course do all he can.

Yours very truly,

C. P. HUNTINGTON.

SAN FRANCISCO, *January 25, 1887.*

C. P. HUNTINGTON, Esq., *Vice-President*, New York.

DEAR SIR: Yours of 10th inst. duly received. I have looked into the matter of the very large balances to the credit of the individual accounts of Leland Stanford, C. P. Huntington, Charles Crocker, and estate of Mark Hopkins, on the books of S. H. H. & C., amounting to over \$35,300,000. These large balances arise from the following causes:

As appears by the books, there has been distributed or divided at various times sundry properties, which have been currently charged to "Dividend Account," amounting to \$9,250,520.21; and various collections have been credited to same account, for dividends and interest received on stocks, etc., amounting to \$655,533.53,—the *debit balance* being \$8,594,986.68. Among the items charged to "Dividend Account," the larger ones are: in June, 1877, "S. P. Bonds, divided," \$2,880,000.00; in 1878, Oakland Water Front Stock, divided, \$474,601.39; Central Pacific R. R. Co. stock (E. B. C.), \$5,192,550.00.

Since 1875, interest accounts have been made up yearly in favor of, and the amounts credited to the personal accounts of, Leland Stanford, C. P. Huntington, Charles Crocker, Mark Hopkins, and estate of Mark Hopkins, and charged to "Interest Account," amounting in the aggregate, in round numbers, to \$20,000,000. This was all right and proper, because the amount of capital contributed by each was unequal; and by making up interest on the full amount of credit balance of each from time to time, each got in effect a credit to which he was entitled for interest on the excess he had in the Company. This matter of equalizing the interest, however, led to the very large amount of debit which now appears in "Interest Account." This debit represents no assets, it being really a *Company* loss, and might have been legitimately charged to "Profit and Loss."

Besides these large items of interest credited to the individuals, S. H. H.

& C., above, there were large items of interest both received and paid, leaving the balance of debit in "Interest Account".... \$20,826,789 49  
There also appears on the books a debit balance to "Profit and Loss" account of..... 1,187,215 33

The main items to *credit* of this account is "Balance transferred from Contract and Finance Company"..... 2,608,292 29

A few of the larger items to *debit* of same account are:

"Transfer Market St. RR." ... 212,893 01  
"Ione property stock issued and divided"..... 229,065 60

"Rolling Stock furnished S. P. R. R. Co., for account of C. & F. Co."..	\$236,681 92
"Estate of E. B. Crocker, amount of note given to E. B. Crocker, March 24, 1871, by Stanford, Huntington and Hopkins".....	1,298,140 00
"Amount due on contract of S. P. R. R. Co., for rolling-stock not furnished".....	548,435 29

There are many other entries ; the above are stated merely to give you some idea of the account. Now, these items to debit of

"Dividend Account," say .....	\$8,594,986 68
"Interest Account," " .....	20,826,789 49
"Profit and Loss, " .....	1,187,215 33

Amounting in aggregate to.....\$30,608,991 50  
are properly and legitimately chargeable to the individual accounts of the parties S., H., H. & C., in equal amounts, one-fourth to each.

This would reduce the amounts now standing to their credits, as follows :

Present credits, aggregate in round numbers, say.....	\$35,300,000
Charges as above .....	30,600,000

Leaves to their credit.....\$4,700,000  
Something like the amount of the actual assets.

In the above are stated the amounts as they appear for December 31, 1885, the accounts of S., H., H. & C. are, as you are aware, inactive, and Mr. Brown has not yet posted them up for 1886, but will do so as soon as your statements for December, 1886, are to hand.

The interest accounts for Leland Stanford, C. P. Huntington, etc., for 1886, will, when made up and credited, of course vary the *amounts* of their accounts; but you will, I think, be able to get from the above sufficient general facts to enable you to understand how it comes that such large amounts appear to credit of L. S., C. P. H., C. C., and estate of M. H., while the assets are so much less.

Mr. Hopkins makes a suggestion to Mr. Brown, in which Mr. Brown concurs,—and which I think would be well to carry out,—that is, that since S., H., H. & C. are now the only parties in interest in the Pacific Improvement Company, that the books of S., H., H. & C. be written up, the accounts of "Dividend," "Interest," "Profit and Loss," etc., be charged off as suggested, and the books balanced and turned over with the balances and assets to the P. I. Co.; the P. I. Co. to transfer the balances of S., H., H. & C. books to the P. I. Co. books; and thus have only one set of books for the accounts of the parties, S., H., H. & C.

Trusting the above will be satisfactory, I am,

Yours very truly,

E. H. MILLER, JR.

SAN FRANCISCO, *January 25, 1887.*

C. P. HUNTINGTON, Esq., *Vice-President*, New York :

DEAR SIR : I received your letter of 10th in relation to examining the books of S., H., H. & C., and have written you to-day in explanation of the large balances to the credit of L. S., C. P. H., C. C., and estate of M. H.

I have gone over the books as much in detail as is possible in the time I have had to devote to them since the receipt of your letter, and I find them correct so far as I have examined them. I had no difficulty in tracing out every item which I looked up. It will be impossible for me personally to make a critical expert examination of the books. There were many items brought forward or transferred from old C. & F. Co. accounts, and a thorough and exhaustive examination would require to go back to the old books of the C. & F. Co. to see that they had been properly kept, and the balances properly transferred to the books of S., H., H. & C. But assuming that the balances brought from books of C. & F. Co. are correct, as they doubtless are, the accounts in books of S., H., H. & C. date back to 1873; and it will be a work taking considerable time—more than I could possibly devote to it, to undertake to verify them.

The suggestion in my other letter that the books be written up, and, with the assets, turned over to P. I. Co., will, if carried out, enable the P. I. Co. to have the books in hand, and an examination can be made under the direction of Mr. Douty, taking all the time that might be required.

It is not necessary for me to say or assure you that I would or will personally give to Mr. Douty all the assistance and advice in my power in his making any examination that may be determined on. My knowledge of and recollection as to some of the

accounts which have a connection with the Central Pacific Company may be of service in such examination.

Very truly yours,

E. H. MILLER, JR.

The foregoing letters will give some idea to the stockholders and Government of the purposes for which these private Companies exist. To credit Stanford & Co. direct with the enormous profits they get from the roads they operate, would be stating the fact too plainly, so instead such titles as "Southern Development Company," "Pacific Improvement Company," "Western Development Company," etc., are used. One has only to read the report of the Majority Commission on the contract with the Pacific Improvement Company, extending the California and Oregon road, heretofore quoted, and he will cease to wonder why Stanford & Co. do not allow themselves more than \$10,000 per year as salary.

It is to be hoped that the Court of Claims will see the folly in recommending the payment into the hands of these men of amounts withheld by the Government for transportation service performed on non-aided lines of the Central. During the operation of the road by Stanford & Co. the United States will have enough trouble in collecting the amount already owing, and it would be an injustice to the stockholders to further increase its claim. The Treasury Department at Washington seems to understand its position in the matter, and I believe can be relied upon to resist payment to the last. Had Stanford & Co. honest intention of even eventually paying back the debt, they would not object, in the interest of the stockholders and the road they have ruined, to allow the credits referred to to apply on the debt. But instead, they clamor for its payment over to them, caring little as to whether the road ever succeeds in disentangling itself from its present difficulties.

All of the officers of the Union Pacific Railway [state the Majority Commission, page 19 of their report] have declared that if such amount be fixed so as to be within the limits of their financial ability to pay, they will accept it, and agree to make the payments required.

The second consideration which has impressed us with much force is the necessity of divorcing, as far as possible, the Government and the Railroad Company. It is not seemly that the sovereign power of the United States should be subjected to the constant and belittling litigations that have so persistently occurred ever since the issue of these bonds. It is not becoming that in these controversies the United States should be held to have abdicated its sovereignty, and through its officials be made to contend for petty successes or to suffer defeats in the forum of its own courts. . . .

If the Government intends to collect the debt, the shortest method is by all means the best; and about the only certain way in which the stockholder can derive a benefit from the money withheld by the Government would be to apply it to that purpose. If paid to the present managers the money would soon find its way into the hands of the Lessee Company or the Pacific Improvement Company. Prompt action by the Government is necessary to protect its rights and those of the stockholders. In the past it has been lavish and lenient with the present managers; let it reflect how little the pledges made to it have been kept. I understand that a Senator, who is a member of the present Senate Committee on Pacific Railroads, stated that in his opinion the Central Pacific road was nothing but a bridge. One may search through the reports of the Company's former Chief Engineer, heretofore referred to, without coming across a single reference to the durability of the road to be constructed; their sole object seemed to be to rush the work through to a connection, in order to obtain the munificent aid held out by the Government and given



them as sections of the road were finished. They seemed to care nothing about the future service to be expected from it, nor was it to them a personal undertaking, but rather one for personal gain. Eagerly accepting the proffered loan, they agreed to refund it at the end of thirty years; and if one were to judge from their every act and the swollen condition of the debt, it is doubtful if they ever intended fulfilling that promise, for to-day find them fighting down every measure calculated to hold them to it. Before concluding I will ask the reader to carefully note the summing up by the Majority Commission, pages 49-50 of their report:

This Commission finds it impossible to state its views of the object of the Government in making the munificent grant of lands and the great aid of its credit, in better language than that contained in the report of the Wilson Committee to the House of Representatives, made on the 20th of February, 1873. The language of that report is as follows:

The conclusion reached by this Commission, based upon their own examination of the officers of the respective Companies, upon the examination of the accounts of the Companies by the experts of the Commission, and upon the report of the inspecting engineer of the Commission, is that, with a single exception, to be presently noted, all of the duties and obligations above referred to have been constantly and persistently disregarded. The result is that those who have controlled and directed the construction and development of these companies have become possessed of their surplus assets through issues of bonds, stocks, and payments of dividends, voted by themselves, while the great creditor, the United States, finds itself substantially without adequate security for the repayment of its loans.

The single exception referred to above, we desire, at the threshold of this portion of the report, to indicate and to emphasize. We refer to the administration of the Union Pacific Railway Company since the spring of 1884. . . .

I have appended herewith a proposition, in brief, which I respectfully submit as a possible plan towards the settlement of the debt. Many of the proposed settlements, upon mature consideration, will be found impracticable; but the one offered by the Directors of the Central Pacific is seemingly the least desirable, since it is satisfactory to none but their own interests. If Congress wishes to learn as to the public sentiment in the West in regard to the railroad debt, a representative journal like the *San Francisco Chronicle* ought to be in a position to furnish it. Below I print an editorial clipping from a recent issue of that paper, in which will be found some sensible suggestions:

The past history of the Central Pacific Railroad demonstrates that it has been a money-making road, and there is no reason why it should be less profitable now, when the State has increased in wealth and population, than it was eight or ten years ago. As everybody knows, the Southern Pacific road was built out of the profits of the Central Pacific; the quadrilateral accumulated immense private fortunes; a number of ancillary companies—both railroad and construction companies—were enriched; and enormous sums of money were spent in ways which will not bear the light of investigation; and all this was done out of the earnings of the Central Pacific. Is it not obvious, then, that if the Central Pacific were given an even chance; if traffic were not studiously diverted from it; if its rolling stock and equipments were kept up properly; and if there were not a determined and persistent effort to wreck it, it would be a paying property, and that, too, without any increase in rates? . . .

The Central Pacific owns stations and tracks, and that intangible property known as franchises, which are used by the Southern Pacific and which are indispensable to the latter, and yet the assertion is made that the Central Pacific is practically insolvent.

But there is a way to test this question, and to find out the exact financial condition of this railroad. Commissioner Patterson declared, after a careful examination, that had the road been built and managed upon honest methods, and had the Government loan been properly applied, the road could have declared dividends at the rate of six per cent. per annum for eighteen years, could have repaid the Government loan, and could have reduced their charges to the extent of \$54,000,000. If these assertions

are correct, and there is no reason to doubt that they are, let Congress pass an act putting this road at once into the hands of a receiver, on the ground of failure to comply with its contracts. Let the receiver operate the road—not as a subsidiary to the Southern Pacific, but as its business rival, for three or four years. Let him keep the road in repair, restore the rolling-stock, and, generally, run the road as it should be run. If at the end of that time the road has not demonstrated its ability to meet its obligations to the Government in a reasonable time, then it will be time enough to talk about an extension of half a century and a reduction in the rate of interest. . . .

Above all, there are two matters to which attention should be given, and which, if acted upon, will insure to the Government the fulfilment of such obligations as it may impose, should the time for the payment of the debt be extended, namely, cancelling the Directors' lease of the road to the Southern Pacific Company, and restoring to the Central the leases of the branch lines in California. The Majority Commission agree on the wisdom of this step and make it one of their principal recommendations to Congress. On page 20 of their report, referring to the slender security of the Government's second lien on the property, they conclude as follows: "We have, therefore, deemed it most desirable to devise such measures as will increase the extent and efficiency of the security held by the United States, and give to it, instead of the existing fragmentary statutory lien, *an efficient and complete mortgage under which it can hold an absolute control, as its security, a lien affecting the entire system and all its branches.*"

#### A SYNOPSIS OF A PLAN FOR COLLECTING THE DEBT FROM THE CENTRAL PACIFIC RAILROAD COMPANY.

SHOULD the Directors decline to either pay or guarantee payment of the entire debt at maturity, the Government to immediately foreclose its mortgage and take possession of the entire road, including the branch lines; purchase at a fair valuation the minority stock outstanding; the road and branches then to be sold to the highest bidder.

Or, upon refusal as above, let the Government immediately foreclose by taking possession of the stock held by Stanford & Co.—the controlling interest—covering the entire system, including a lease of the branch lines upon favorable terms; the controlling interest of the whole to be then leased for a term of years to the highest and best bidder; the ownership of the minority stock to stand as at present. The proceeds from the leasing of the branch lines could either be applied on the debt or be paid to the owners for the use of them. The total issue of stock is 680,000 shares; the control thus acquired by the Government would be, say 350,000 shares. Proper management of the road so leased would enhance the market value of the stock to at least, say \$65 per share. Thus the Government's interest would be worth about \$23,000,000, which, with the premium added for the control, would about equal half of the road's present indebtedness. When, therefore, the debt shall have been reduced to, say \$25,000,000, the Government to sell its stock to satisfy its claim.